

89-1187

No.

FILED

JAN 18 1990

JOSEPH E. SPANIOLO, JR.  
CLERK

IN THE  
**Supreme Court of the United States**  
OCTOBER TERM, 1989

BANFF, LTD. f/k/a  
SWEATER BEE BY BANFF, LTD.,

*Petitioner,*

—v.—

SALANT CORP., as successor in interest (by merger)  
to both MANHATTAN INDUSTRIES, INC. and  
BAYARD SHIRT CORP.,

*Respondent.*

**PETITION FOR A WRIT OF CERTIORARI TO  
THE UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT**

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## QUESTIONS PRESENTED FOR REVIEW

1. In compliance with the safeguards established in four other Circuits but not in the Second Circuit, should a District Court which imposes an extraordinary discovery fine of \$30,000 be required to specify what discovery violations actually occurred?

2. Does a District Court commit reversible error when it fails to make any specific findings whatsoever—as to what discovery violations did or did not occur nor as to what discovery conduct was sanctionable in the first place—when it imposes a \$30,000 discovery fine and instead recites only in conclusory fashion that it “essentially agreed” with a memorandum filed by the party requesting the fine?

3. When imposing a \$30,000 discovery fine, is it essential that the District Court make specific findings—as to what alleged discovery violations did or did not occur and as to what damage they caused—in order to ensure meaningful appellate review of the discovery sanction and the proper exercise of discretion within permissible limits?

## STATEMENT PURSUANT TO RULE 29.1

The petitioner Banff, Ltd. f/k/a Sweater Bee By Banff, Ltd. has no parent companies nor nonwholly owned subsidiaries and is not a subsidiary of any other company.

### THE PARTIES AND ADDITIONAL PARTIES BELOW

There were several parties below who are not parties to the present petition. The proceedings below are reflected in a double caption consisting of (1) a primary action and (2) a civil contempt proceeding brought for violation of a consent decree entered in the primary action. The petitioner Banff, although a defendant in the primary action, prosecuted the civil contempt proceeding as contempt-plaintiff. The double-caption in the Court of Appeals sets forth the alignment and identities of the parties:

#### *Caption in the Court of Appeals:*

\* \* \*

Manhattan Industries, Inc.,  
Bayard Shirt Corp. and  
Don Sophisticates, Inc.,

*Plaintiffs,*

v.

Sweater Bee By Banff, Ltd.,  
and Robert Belsky,

*Defendants.*

\* \* \*

Sweater Bee By Banff, Ltd.,  
*Contempt-Plaintiff/Appellant,*

v.

[Caption continued]



[Caption continued]

Manhattan Industries, Inc., Bayard Shirt Corp.,  
 Champ pierre, Ltd., Laurence C. Leeds, Jr.,  
 Donald Kallman, Robert Hamel and Fred Feldstein,  
*Contempt-Defendants,*

Manhattan Industries, Inc., Bayard Shirt Corp.,  
 Donald Kallman and Robert Hamel,  
*Contempt-Defendants/Appellees.*

\* \* \*

## 1. The Present Parties

The petitioner Banff, Ltd. f/k/a Sweater Bee By Banff, Ltd. ("Banff") is a manufacturer of quality women's wearing apparel. Banff is privately owned. Banff, although a defendant in the primary action below, prosecuted the contempt proceeding as contempt-plaintiff.

The respondent Salant Corp. ("Salant") is the respondent only by reason of merger. Salant's predecessors in interest are described immediately below.

## 2. The Predecessors In Interest To The Present Respondent

The contempt-defendant Bayard Shirt Corp. a/k/a Bayard International, Inc. ("Bayard") was adjudged in civil contempt. Bayard, an apparel manufacturer, was a wholly owned subsidiary of Manhattan Industries, Inc. In Aug. 1984 Bayard was liquidated and merged into Manhattan Industries, Inc. who then assumed Bayard's liabilities.

The contempt-defendant Manhattan Industries, Inc. ("Manhattan") also was an apparel manufacturer. Manhattan, after assuming Bayard's liabilities, *supra*, was

itself merged into the respondent Salant Corp. ("Salant") in Aug. 1988. As a result of this latter merger, the respondent Salant assumed Manhattan's obligations which included the liabilities of the contemnor Bayard.

### **3. Additional Parties To The Contempt Proceeding Below**

The contempt-defendants Champppierre, Ltd. and Fred Feldstein were sales agents of the contemnor Bayard. Champppierre and Feldstein do not have an interest in the present petition.

The contempt-defendant Laurence C. Leeds, Jr., was chairman of the contempt-defendant Manhattan. Leeds does not have an interest in the present petition.

The contempt-defendant Donald Kallman was vice chairman and executive vice-president of the contempt-defendant Manhattan and bore the responsibility for ensuring legal compliance by Manhattan and the contemnor Bayard. Kallman does not have an interest in the present petition.

The contempt-defendant Robert Hamel was executive vice-president of the contemnor Bayard and bore responsibility for ensuring its legal compliance. Hamel does not have an interest in the present petition.

### **4. Further Parties Below**

The defendant Robert Belsky was chairman of the petitioner Banff. Mr. Belsky was not a party to the contempt proceeding. Mr. Belsky is deceased.

Don Sophisticates, Inc., a plaintiff below, was not a party to the contempt proceeding. Don Sophisticates has been liquidated in bankruptcy.

In a related action below under a different caption not involved in this petition, a further party was Herbert Rounick. Mr. Rounick was chairman of Don Sophisticates, Inc., described at p. iv *supra*.

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**PETITION FOR A WRIT OF CERTIORARI TO  
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The petitioner Banff, Ltd. f/k/a Sweater Bee By Banff, Ltd. ("Banff") hereby submits its petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit.

## INTRODUCTION

In the District Court the petitioner Banff brought a civil contempt proceeding for a massive series of violations of a consent injunction under the Lanham Trademark Act. 15 U.S.C. § 1051 et seq. In the District Court Banff gained a judgment of civil contempt. The District Court denied an accounting of profits despite the massive and prolonged contempts in violation of Banff's trademark rights. On appeal, Banff prevailed in the Court of Appeals which, in reversing the District Court, ordered an accounting of contempt profits. However, the Court of Appeals affirmed a \$30,000 discovery fine which the District Court had levied against Banff without any identification of the alleged discovery violations.

This petition brings to this Court for review the need to specify the alleged discovery violations when imposing large discovery fines. The Second Circuit has disregarded the holdings of 4 other Circuits which require that large discovery sanctions must be accompanied by specific findings of discovery violations in order to ensure meaningful appellate review, consideration of relevant factors by the District Court, and the fair administration of the discovery rules.

## OPINIONS AND ORDERS BELOW

The civil contempt proceeding originally was heard before a special master. The master awarded a finding of civil contempt without an accounting of contempt profits. The master also imposed a \$30,000 discovery fine against the petitioner Banff without specifying what the alleged discovery violations were. The report of the special master

is not reported and is included in the appendix at A.22-53.<sup>1</sup> The master filed his report on June 27, 1986.

The District Court's findings consisted only of a 1/2-page order summarily confirming the master's report. The District Court's order is not reported and is included in the appendix at A.21. The District Court filed its 1/2-page order on July 14, 1988.

The Second Circuit reversed the District Court and ordered an accounting of contempt profits in compliance with this Court's decision in *Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448 (1932) (contempt profits awarded as compensation to aggrieved party).<sup>2</sup> However, the Second Circuit affirmed the \$30,000 discovery fine against Banff without the District Court's ever having specified what the alleged discovery violations were. The opinion of the Second Circuit is reported at *Manhattan Industries, Inc. v. Sweater Bee By Banff, Ltd.*, 885 F.2d 1 (2d Cir. 1989), and is included in the appendix at A.1-20.

## JURISDICTION OF THIS COURT

The opinion of the Second Circuit was filed Sept. 15, 1989 and is included in the appendix at A.1-20.

The petitioner Banff timely filed a petition for rehearing in the Second Circuit on Sept. 29, 1989. Banff sought a

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1 The report of the special master is replete with numerous misstatements of the record, ignoring thousands of undisputed documents, concerning the petitioner Banff's relevant business and good will, competition between the parties, and the contemnor Bayard's much wider scope of contempts. In the detailed examination of the record before the Second Circuit, the petitioner Banff addressed these misstatements in detail in its 100-page brief at pp. 16-38, 39-40. The joint appendix in the Second Circuit was 3700+ pages in length.

In light of the narrow scope of this petition which focuses solely on the discovery fine, there is no need to reiterate the master's errors on the merits.

2 See page 10 n.6, *infra*, for a description of the contempt accounting.

rehearing only by the panel, not a rehearing en banc. The order of the Second Circuit denying Banff's petition for rehearing is included in the appendix at A.54-55 and was filed Oct. 20, 1989.

Banff timely files this petition for a writ of certiorari on Jan. 18, 1990 within 90 days of the date of the Second Circuit's denial of the petition for rehearing, in compliance with Rules 13.1 & 13.4. This Court has jurisdiction over the subject matter of this petition by reason of 28 U.S.C. § 1254(1).

## STATUTORY PROVISIONS AND RULES

Rule 37, Federal Rules of Civil Procedure:

### **Rule 37, Failure To Make or Cooperate in Discovery: Sanctions.**

(a) **MOTION FOR ORDER COMPELLING DISCOVERY.** A party, upon reasonable notice to other parties and all persons affected thereby, may apply for an order compelling discovery as follows:

(1) *Appropriate Court.* An application for an order to a party may be made to the court in which the action is pending, or, on matters relating to a deposition, to the court in the district where the deposition is being taken.

\* \* \*

(4) *Award of Expenses of Motion.* If the motion is granted, the court shall, after opportunity for hearing, require the party or deponent whose conduct necessitated the motion or the party or attorney advising such conduct or both of them to pay to the moving party the reasonable expenses incurred in obtaining the order, including attorney's fees, unless

the court finds that the opposition to the motion was substantially justified or that other circumstances make an award of expenses unjust.

If the motion is denied, the court shall, after opportunity for hearing, require the moving party or the attorney advising the motion or both of them to pay to the party or deponent who opposed the motion the reasonable expenses incurred in opposing the motion, including attorney's fees, unless the court finds that the making of the motion was substantially justified or that other circumstances make an award of expenses unjust.

If the motion is granted in part and denied in part, the court may apportion the reasonable expenses incurred in relation to the motion among the parties and persons in a just manner.

## STATEMENT OF THE CASE

This is a civil contempt proceeding arising out of a massive series of contempts of a consent trademark injunction where the contempts numbered in the tens-of-thousands over a 3-year period. During the contempt hearings, there was dispute between the petitioner Banff and the master over his attempt to increase his fee, and Banff moved unsuccessfully for his recusal. The master then imposed a \$30,000 "discovery" fine against Banff without ever specifying what the alleged discovery violations were. The Second Circuit, differing with 4 other Circuits, affirmed the \$30,000 discovery fine without the District Court's ever having identified the alleged discovery violations.

The parties' dispute has been in the courts for 11 years since 1979 and already has required 3 separate appeals to the Second Circuit.

### **1. Background and Prior Appeal to the Second Circuit**

The parties' dispute began in 1979. In that year the non-party General Mills, Inc. abandoned its famed "Kimberly" trademark for women's apparel. The petitioner Banff and respondents Manhattan Industries, Inc. and Bayard Shirt Corp. ("Manhattan-Bayard"), competitors in the womens' apparel field, raced to acquire title to the abandoned Kimberly mark. Litigation ensued in the District Court which had jurisdiction pursuant to 15 U.S.C. § 1121 and 28 U.S.C. § 1338(a). In March 1980 the District Court ruled in favor of Manhattan-Bayard and issued a permanent injunction against Banff's use of the Kimberly mark.

Banff appealed, and the Second Circuit reversed. The Second Circuit in July 1980 held that Banff had acquired equal rights in the Kimberly trademark and that Banff

was entitled to use the mark concurrently with Manhattan-Bayard. *Manhattan Industries, Inc. v. Sweater Bee By Banff, Ltd.*, 627 F.2d 628 (2d Cir. 1980) ("1980 appeal"). The Second Circuit remanded for entry of an order granting to Banff equal rights in the Kimberly mark and preventing confusion in the parties' concurrent uses of the Kimberly trademark. 627 F.2d at 631.

## **2. The Consent Injunction**

On remand from the 1980 appeal, the parties signed a consent injunction. The consent injunction prevented confusion through the dual requirement of a source-reference and a buffer zone: The consent injunction required the parties to distinguish their Kimberly marks with a source-reference such as "by Bayard" or "by Banff" (i.e., "Kimberly by Bayard" or "Kimberly by Banff") and also created a buffer zone between the parties' Kimberly marks by prohibiting each side from using the "Kimberly" mark without a source-reference. Neither side could use "Kimberly" alone. The consent injunction was entered on Feb. 27, 1981.

## **3. The Massive Contempts**

For 3 years thereafter the contemnor Bayard refused to comply. Bayard perpetrated a massive series of contempts numbering in the tens-of-thousands over the 3-year period 1981-1984. Bayard used the "Kimberly" mark illegally without a source-reference on every conceivable medium including clothing labels, sales invoices, sales order forms, telephone listings, lobby-directory listings, store signs, advertisements, trade catalogs, business cards and letterhead (A.7-8,10; 885 F.2d at 4-5). The parties agreed that the illegal contempt revenues were \$2,165,074 (A.15; 885 F.2d at 7).



#### 4. The Contempt Proceedings in the District Court

In Dec. 1983 the petitioner Banff moved for contempt.<sup>3</sup> The contempt proceedings began before a special master in Oct. 1984. The contempt hearing began before the master 5 months later in March 1985.

The proceedings before the master were marred by an unseemly attempt by the master to use his position of authority to increase his fee. The petitioner Banff objected to paying the increase and unsuccessfully moved to recuse the master. Thereafter the master imposed a \$30,000 "discovery" fine against Banff, but the master never specified what the alleged discovery violations were (A.48-49). The circumstances were as follows:

The District Court had set the special master's fee at \$175 per hour, with one-half (\$87.50 per hour) to be paid by each side per monthly bill (A.56, 58). The master's first bill complied, and Banff paid it. Thereafter the master sought counsel's "consent" to an increase: payment *also* for his associate's time at \$45 per hour. Since both the master and his associate attended the numerous conferences and hearings, this would increase the hourly rate to \$220 (\$175 + \$45 = \$220). Banff objected to paying the increase: The District Court had ordered a master's fee of \$175 per hour, not \$220 (A.56, 58).

The master's request for a higher fee was not subtle: On-the-record he warned "If you [Banff] don't pay my

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3 Banff also brought a separate action seeking, *inter alia*, to recover for the same violations under the Lanham Trademark Act and Sherman Antitrust Act. Banff moved to include its contempt claim in that separate action, but the District Court ordered that the contempt claim proceed under the present action in which the consent decree had been entered. The *non*-contempt claims in that separate action were ordered to arbitration, which the Second Circuit affirmed. *Sweater Bee By Banff, Ltd. v. Manhattan Industries, Inc.*, 754 F.2d 457 (2d Cir.), cert. denied, 474 U.S. 819 (1985).



bill, we are not going to go forward'' (A.59) and made an ominous suggestion that:

''there are certain things that occur, as you know during trials, that affect a judge's [sic-master's] determination, and you try to avoid them. Any good self respecting litigator knows that.''

(A.59). The master also warned Banff that

''it would behoove the parties to consent to [the higher fee] because . . . it is typically in the best interest of counsel to acquiesce in requests by people who have judicial or quasi-judicial authority, just to make things go more smoothly.''

(A.60).

Banff's counsel was outraged and moved to recuse the master. Banff's counsel made clear that it was improper and unconstitutional to confront Banff with a ''request'' for ''voluntary'' additional payment to the same official who decides the merits (A.60-61). Banff's motion for recusal was denied. Banff thereafter paid the additional master's fees without prejudice.

The contemnor Bayard later accused Banff of discovery delays and, in seeking a ''discovery'' fine, Bayard adroitly reminded the master of Banff's recusal motion. In his report, the master imposed a \$30,000 ''discovery'' fine against Banff but never specified what the alleged discovery violations were (A.48-49). Instead, the master wrote in conclusory fashion that he ''essential[ly] agreed'' with the unsworn legal argument of the contemnor Bayard on the discovery issues (A.48).<sup>4</sup>

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4 The master exacted the \$30,000 discovery fine by reducing Banff's recovery of the master's fees which it paid. The master received \$44,506.05 fees from each side, totalling \$89,012.10. The master ordered Banff to pay as a discovery fine  $\frac{1}{3}$  of his fees, or \$29,670.70 ( $\frac{1}{3} \times \$89,012.10 = \$29,670.70$ ) (A.48; see also A.9; 885 F.2d at 5).

On the merits, the master found Bayard in civil contempt for its massive 3-year violations of the consent decree but declined to award an accounting of contempt profits, leaving Banff without any compensation for the massive contempts.

The District Court summarily affirmed the master's report in a 1½-page order (A.21). The District Court also declined to specify the alleged discovery violations (A.21).

### **5. The Opinion of the Second Circuit on the Present Appeal**

On appeal by Banff, the Second Circuit reversed on the merits but affirmed the \$30,000 discovery fine.<sup>5</sup> The Second Circuit ordered an accounting of contempt profits pursuant to this Court's seminal decision in *Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448, 455-56 (1932) (accounting of contempt profits to compensate aggrieved party).<sup>6</sup> The Second Circuit found injury to Banff's good will and unjust enrichment by the contemnor who had "demonstrated a callous disregard for the rights of Banff and for the mandates of the federal courts" (A. 11-14, 18; 885 F.2d at 5-7, 8). However, the Second Circuit affirmed the \$30,000 discovery fine without any specification by the District Court of the alleged discovery violations (A.18; 885 F.2d at 8-9).

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5 Bayard declined to cross-appeal from the finding of contempt.

6 The Second Circuit was able to calculate the accounting in the first instance because all amounts were established as a matter of law. The parties agreed that the contempt sales were \$2,165,074 (A.15; 885 F.2d at 7). From this figure, the Second Circuit allowed the contemnor to deduct every dollar of expense which it claimed except only fixed overhead (A.15-17; 885 F.2d at 7-8). The Second Circuit found that the contemnor had failed to establish its overhead as a matter of law: "Bayard . . . has offered grossly inadequate evidence of its Kimberly overhead" (A.16; 885 F.2d at 8). However, Banff conceded that \$19,758 of "overhead" was deductible as a variable factoring expense (A.17; 885 F.2d at 8). After allowing the contemnor to deduct every dollar claimed for all other expenses plus the \$19,758 factoring expense, the resulting accounting was \$147,199 as a matter of law (A.17; 885 F.2d at 8).

## REASONS FOR ALLOWANCE OF THE WRIT

### 1. The Second Circuit's Allowance of Large Discovery Fines without Specific Findings of Discovery Violations Contravenes the Holdings in 4 Other Circuits and the Essential Safeguards to a Fair Discovery Process

At least 4 other Circuits reject the Second Circuit's tolerance of conclusory discovery fines. The Fourth, Sixth, Eleventh and D.C. Circuits expressly require specific findings of discovery violations and of the resulting damage where large discovery sanctions are imposed. *Wilson v. Volkswagen of America, Inc.*, 561 F.2d 494, 505 (4th Cir. 1977); *Patton v. Aerojet Ordnance Co.*, 765 F.2d 604, 608 (6th Cir. 1985); *Carlucci v. Piper Aircraft Corp.*, 775 F.2d 1440, 1453 (11th Cir. 1985); *Von der Heydt v. Rogers*, 251 F.2d 17, 17-18 (D.C.Cir. 1958).

Only the Second Circuit now permits a conclusory statement of violations—without specifying what the alleged violations were—to support a \$30,000 discovery fine.

There are several deficiencies in the Second Circuit's approach. First, it precludes effective appellate review of the discovery fine. It is universally recognized that:

in cases invoking the sanction power of Rule 37 the district court must "clearly state its reasons so that meaningful review may be had on appeal."

*Carlucci, supra*, 775 F.2d at 1453 (11th Cir. 1985), quoting from *Wilson, supra*, 561 F.2d at 505 (4th Cir. 1977). The Second Circuit's allowance of conclusory statements of discovery violations contravenes this standard and prevents effective appellate review.

Second, conclusory statements of discovery violation permit the trial court to conceal the use of impermissible factors in deciding discovery sanctions. Even the most

conscientious trial judge may be led to err by relying on a movant's version of the alleged "facts" unless the trial court itself undertakes an independent review *and explanation* of the underlying facts and circumstances. Specific findings are essential to this process. Otherwise, conscientious trial judges inadvertently may conceal erroneous findings, incorrect conclusions or excessive use of discretion, all the while imposing crippling fines on a party and serious professional consequences on counsel.

Third, the danger that impermissible factors may influence the discovery fine is particularly acute in hard-fought or contentious cases. Here an unfortunate relationship developed between the master and Banff's counsel after the master sought a "voluntary" fee increase from the parties and Banff sought his recusal. The safeguard of specific findings is especially important here.

Fourth, fundamental fairness simply requires specific findings. It is inexplicable that a party can be fined \$30,000 without being told what it did wrong or how its alleged errors relate to the \$30,000 fine.

The Second Circuit's affirmance of the \$30,000 discovery fine below improperly tolerates all these deficiencies. Here the master merely stated in conclusory fashion that he "essentially agree[d]" with respondents' presentation and found petitioner Banff's to be "woefully inadequate" (A.48). This type of conclusory trial court "agreement" with one side's presentation—without any greater specificity—vitiates the safeguard of specificity. If trial courts may impose \$30,000 sanctions by reciting an "essential agree[ment]" with one side and "woe[re]full inadequa[cy]" in the other—which is the totality of the trial court's finding here (A.48)—then effectively there is no specificity requirement. Trial courts which impose sanctions *always* "agree" with the party who seeks them.

The Second Circuit's departure from the safeguards required in at least 4 other Circuits should not be permitted to stand. Under the Second Circuit's affirmance, trial courts could receive a memorandum requesting sanctions (as respondents filed here), recite their "essential agree[ment]" with it (as the master did here), recite that the response is "woefully inadequate" (as the master also did here), and then impose enormous fines with conclusory accusations against counsel, exposing parties to financial loss and counsel to discipline, never revealing the specifics of their findings, rationale nor conclusions.

Here the lack of specificity is doubly prejudicial. It prejudices Banff who loses \$30,000 and prejudices its counsel who now could be exposed to bar disciplinary proceedings over alleged "numerous failures" and "improper conduct" never specified by the master who imposed the fine.

The prejudice is real. Specific findings would have refuted the contemnor's request for discovery sanctions. Its request contains numerous errors. Specific findings would have forced the master and District Court to confront them. Examples of specific errors regarding interrogatories are set forth at A.63-70. Instead, the master was able to avoid these and other errors by avoiding specific findings and by reciting instead his conclusory statements of "essential agree[ment]" and "woefull inadequa[cy]" (A.48). These conclusory statements contravene the essential safeguards of specificity required in other Circuits. They should not be permitted to stand.

## **2. The Purported Justifications and Distinctions for the Second Circuit's Affirmance of the Conclusory Discovery Fine Are Not Availing**

The Second Circuit's holding cannot be defended as approving a mere apportionment of master's fees based on

time spent (A.18; 885 F.2d at 8-9). This purported justification for the Second Circuit's holding overlooks the basis of the apportionment: The master's fees were apportioned against Banff *solely* because of Banff's alleged discovery violations without the master's ever having specified what they were. Large discovery fines which lack specific findings of discovery violation should no more be tolerated where they purport to "allocate" master's fees than where they require a direct cash payment.

Nor do the cases cited by the Second Circuit support its holding. Those cases, *Apponi v. Sunshine Biscuits, Inc.*, 809 F.2d 1210, 1220 (6th Cir.), *cert. denied*, 108 S.Ct. 77 (1987), and *Morgan v. Kerrigan*, 530 F.2d 401, 427 (1st Cir.), *cert. denied*, 426 U.S. 935 (1976) (cited at A.18; 885 F.2d at 9), merely approve an allocation of master's fees based upon the substantive culpability of the parties for which there were already specific findings in the record. Those cases do *not* support a setoff of a large discovery fine against master's fees without ever specifying what the alleged discovery violations were.

The Second Circuit's approval of the conclusory \$30,000 discovery fine cannot be excused on the ground that the sanction falls short of a final dismissal or default judgment. The fine is enormous. It effectively reduced by 20% Banff's final recovery in the Court of Appeals, and it exceeds many final judgments awarded in the federal system. The difference between a \$30,000 fine and a sanction of dismissal has nothing to do with the fundamental safeguard and fairness of notifying parties of the alleged discovery misconduct which caused the fine and the factors which influenced its size.



## CONCLUSION

This Court should grant certiorari to resolve the conflict among the Circuits resulting from the Second Circuit's departure from the established safeguard of specific findings in large discovery sanctions. Specific findings which are required in at least 4 other circuits ensure meaningful appellate review, proper consideration of relevant factors by the District Court, and the fair administration of the discovery rules.

Dated: January 18, 1990  
New York, N.Y.

Respectfully submitted,

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## **APPENDIX**



UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

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No. 893—August Term, 1988

(Argued April 4, 1989      Decided September 15, 1989)

Docket No. 88-7810

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MANHATTAN INDUSTRIES, INC., BAYARD SHIRT  
CORPORATION, and DON SOPHISTICATES, INC.,

*Plaintiffs,*

—against—

SWEATER BEE BY BANFF, LTD., and ROBERT BELSKY,

*Defendants.*

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SWEATER BEE BY BANFF, LTD.,

*Contempt-Plaintiff-Appellant,*

—against—

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT COR-  
PORATION, CHAMPPIERRE, LTD., LAURENCE L.  
LEEDS, JR., DONALD KALLMAN, ROBERT HAMEL,  
and FRED FELDSTEIN,

*Contempt-Defendants,*

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION, DONALD KALLMAN, and ROBERT HAMEL,

*Contempt-Defendants-Appellees.*

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Before:

LUMBARD, PRATT and MINER,

*Circuit Judges.*

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Appeal from judgment entered in the United States District Court for the Southern District of New York (Broderick, J.) adopting and approving report of special master finding contempt-defendant Bayard Shirt Corporation in civil contempt of consent judgment but declining to award compensatory sanctions.

Affirmed in part, reversed in part, and remanded.

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DENNIS GROSSMAN, New York, NY (Eileen King, Grossman & King, New York, NY, of counsel), *for Contempt-Plaintiff-Appellant.*

THOMAS J. SWEENEY, III, New York, NY (Cynthia A. Feigin, Davis, Markel & Edwards, New York, NY; Paul Fields, McAulay, Fields, Fisher, Goldstein & Nissen, New York, NY, of counsel), *for Contempt-Defendants-Appellees.*

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MINER, *Circuit Judge*:

This is an appeal from a judgment entered in the United States District Court for the Southern District of New York (Broderick, J.) that approved and adopted a report of a special master finding the Bayard Shirt Corporation ("Bayard") in civil contempt of that court's February 27, 1981 consent judgment and injunction ("consent judgment"). The finding of contempt was premised on Bayard's failure to use a source reference to distinguish a mark it had adopted in connection with the sale of certain products from the mark adopted by Sweater Bee by Banff, Ltd. ("Sweater Bee"). Despite this finding, the district court agreed with the special master that Bayard's conduct was not willful and that Sweater Bee had failed to prove any injury. As a result, the court declined to award an accounting, damages or attorney's fees against Bayard. Also adopted by the district court was the special master's recommendation that Sweater Bee pay one-third of his fees and expenses.

On appeal, Sweater Bee contends that Bayard's conduct was willful as a matter of law, that sanctions may be imposed for non-willful conduct in any event, and that the district court erred in refusing to order an accounting of Bayard's contempt revenues or profits. We hold that Sweater Bee is entitled to the benefit of sanctions for Bayard's continuous violations of the consent judgment notwithstanding the absence of a finding that the violations were willful and the absence of proof that Sweater Bee sustained any lost sales by reason of the violations, and we award an appropriate sanction.

## BACKGROUND

In May 1979, General Mills, Inc. abandoned its “Kimberly” trademark for women’s apparel. Immediately thereafter, Manhattan Industries, Inc. (“Manhattan”)—Bayard’s corporate parent—and Sweater Bee, both of which manufacture and market women’s apparel, claimed the right to use the mark. To enforce its claim, Manhattan commenced an action under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), in the Southern District of New York in October 1979, seeking (i) an accounting of profits derived from Sweater Bee’s use of the mark, (ii) damages, (iii) costs and (iv) an injunction to prevent Sweater Bee’s continued use of the Kimberly name (“1979 action”).

Ruling in favor of Manhattan, the district court issued a permanent injunction against Sweater Bee but denied any monetary relief. On appeal, we reversed, finding that both parties had an equal right to use the Kimberly mark and that they could do so concurrently, provided that each party differentiated its mark from that of the other. *Manhattan Indus., Inc. v. Sweater Bee By Banff, Ltd.*, 627 F.2d 628, 631 (2d Cir. 1980). Accordingly, we remanded the matter to the district court “for the fashioning of an appropriate order . . . .” *Id.* On remand, the parties entered into a consent order, which on February 27, 1981 was incorporated into a judgment, permitting each party to use the Kimberly mark on all advertising material, brochures, labels, envelopes, business cards and the like in connection with the sale, distribution and advertising of women’s apparel, but only when accompanied by a “source reference” in close proximity to the Kimberly mark (e.g., “Kimberly by Sweater Bee” and “Kimberly by Bayard”).

On June 26, 1981, Sweater Bee commenced an action against Manhattan ("1981 action"), claiming that in the prior trademark action Manhattan had committed fraud and perjury in procuring its concurrent right to use the Kimberly trademark and tradename, and that Manhattan repeatedly had failed to use an appropriate source reference in conjunction with the Kimberly name, in violation of the consent judgment. Later, on March 24, 1982, Sweater Bee filed an amended complaint, asserting causes of action under, *inter alia*, section 43(a) of the Lanham Act, the antitrust laws, federal common law and state law. On October 19, 1982, the district court granted in part and denied in part a motion by Manhattan to dismiss the amended complaint, *see* Fed. R. Civ. P. 12(b)(6), noting that Manhattan's failure to use a source reference "states a claim under § 43(a) of the Lanham Act."

Sweater Bee moved for leave to file a second amended complaint in December 1983, to assert, among other things, additional source-reference claims and a claim against Manhattan, Bayard and certain other Manhattan-related entities and individuals for civil contempt of the consent judgment. Sweater Bee moved also for partial summary judgment on the civil contempt claim and for a judgment of criminal contempt.

After hearing oral argument, Judge Broderick on August 23, 1984 granted Sweater Bee's motion to add the additional source-reference claims, denied its motion for partial summary judgment, and held that Sweater Bee's civil contempt claim should proceed under the caption of the 1979 action so that the court could retain jurisdiction over it. He then referred the matter to a special master, who was to conduct discovery and an evidentiary hearing, report to the district court whether there had been a civil

contempt of the consent judgment and, if so, determine "the amount of damages, if any, suffered by [Sweater Bee] as the result of such civil contempt." In referring the matter to the special master, the court ordered also that each side pay one-half of the master's fees, "with the ultimate responsibility for the . . . fees to abide the event." Finally, the court deferred ruling on Sweater Bee's motion for a judgment of criminal contempt, which, on December 6, 1984, was dismissed upon Sweater Bee's own request.<sup>1</sup>

Discovery proceedings commenced toward the end of 1984. During discovery, the special master on several occasions noted Sweater Bee's failure to comply with the discovery schedule he had established. Not only was Sweater Bee regularly delinquent in producing documents and complying with the master's discovery orders, but it responded belatedly and inadequately to Manhattan's interrogatories. In fact, the special master cautioned that

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1 On November 9, 1984, the Kimberly controversy came before our Court for the second time, but this time in connection with the 1981 action. *Sweater Bee By Banff, Ltd. v. Manhattan Indus., Inc.*, 754 F.2d 457, 460 (2d Cir.), *cert. denied*, 474 U.S. 819 (1985). As the consent judgment provided for arbitration of "[a]ll disputes under or arising out of this judgment," *id.* at 459 (quoting consent judgment), Manhattan had moved for arbitration of the source-reference claims and a stay of the proceedings pending arbitration. The district court granted the motion in part, and Sweater Bee appealed. On appeal, we were presented only with the issues whether Manhattan had waived its right to arbitration and "whether the exercise of pendent appellate jurisdiction is appropriate in connection with the denial of Sweater Bee's motion to add civil contempt to the tort theories under which the source-reference allegations were being litigated, the denial of its motion for partial summary judgment as to liability for civil contempt, and the reference of the civil contempt claim to a master." *Id.* at 460. On February 6, 1985, noting the "neverending supply of arrows from [Sweater Bee's] quiver," *id.* at 465, we held that arbitration had not been waived and declined to exercise pendent appellate jurisdiction over the nonappealable portions of the district court's August 23, 1984 order.



“appropriate actions” might be taken if Sweater Bee continued to cause delay, and observed that the number of times Sweater Bee had not met discovery deadlines “out-number[s] the other side in a geometric fashion.”

Twenty-three days of hearings, between March 14 and October 8, 1985, were held before the special master. On June 27, 1986, the special master filed his report, finding Bayard, but not Manhattan nor any of the other contempt-defendants, in civil contempt of the consent judgment. However, because he determined that Bayard’s conduct was not willful and that Sweater Bee had failed to prove any injury, he declined to require an accounting of revenues or profits.

In reaching his decision, the special master reviewed various violations of the terms of the consent judgment, finding repeated omissions of the required source references in clothing labels and hang tags, sales invoices, dealings with salesmen (trade shows, sales order forms, salesmen contracts and business cards), stationary, advertising (“counter signs,” co-op newspaper ads and one store catalogue), and New York lobby listings, building directories, and telephone listings. He found that the greater part of Bayard’s contemptuous conduct lasted well into 1983, more than two years after the entry of the consent judgment. Further, the master determined that, by and large, Bayard’s Kimberly sales invoices lacked source references until the end of July 1982, and that Bayard’s New York telephone listing for its Kimberly line and showroom appeared without the required reference until sometime after January 1984, when Bayard finally advised New York Telephone to change the listing.

Equally as important, the special master concluded that Bayard failed to develop and implement a “thorough,

considered . . . plan of attack on compliance” with the consent judgment “that would have prevented the problems that occurred.” Although Bayard—principally through Robert Hamel, Executive Vice-President, who was responsible for ensuring compliance with the judgment—instructed its employees and suppliers to use the source reference in connection with all goods sold under the Kimberly name, the master noted that there “appear[s] to have been little follow-through once initial instructions . . . had been given.”

Despite finding widespread contemptuous conduct, the special master concluded that Bayard’s conduct was not willful. For instance, the master found that although 13,000 “Kimberly Sport” labels without a source reference were missing from Bayard’s inventory and presumably added to Bayard garments, they probably were taken and sewn onto the garments “mistakenly.” He found also that while the number of garments shipped with improper labels after August 1982 was “probably substantial,” there was no “intentional, deliberate effort by Bayard to ship garments with the wrong labels or tags.” As well, he found that even though Bayard retained and continued to use its old sales invoices and hang tags (i.e., those that lacked appropriate source references) after entry of the consent judgment in order to save money, it had ordered a “by Bayard” rubber stamp, which it received on February 26, 1981, to mark the old tags and invoices until new ones could be purchased; although the “rubber stamping” policy “was not effectively implemented or supervised,” Bayard began using (with only five exceptions) “properly referenced invoices” in August of 1982.

Additionally, the master determined that there was no evidence that any actual or potential customers of Sweater

Bee were or would be confused or deceived by Bayard's misconduct, particularly because of the sophistication of the customers. He found also that there was "no evidence as to the level of goodwill [Sweater Bee] may have established relating to its Kimberly line or that it experienced any loss of good will [sic] . . . due to Bayard's . . . conduct." He therefore determined that "there is insufficient basis for one to conclude that any sale by Bayard was at [Sweater Bee's] expense."

Consequently, the special master concluded that Sweater Bee had not shown any loss of sales or profits or, for that matter, any other type of pecuniary harm. Absent such proof of injury, the master stated that he could make no award. Moreover, the master concluded that Sweater Bee had failed to satisfy any of the standards necessary to compel an accounting: Sweater Bee failed to prove that it sustained any injury, that Bayard was unjustly enriched or that an accounting was necessary to deter Bayard from violating the consent judgment again.

Pointing to the dilatory behavior of Sweater Bee's counsel throughout discovery, the special master imposed upon Sweater Bee the obligation of paying approximately \$30,000, one-third of his expenses and fees, despite having found Bayard in contempt. Finally, in light of his finding that Bayard's conduct had not been willful, the master recommended that attorney's fees not be awarded.

On July 14, 1988, more than two years after the master submitted his report, the district court summarily approved and adopted the special master's report in its entirety. Judgment was entered on August 17, 1988. This appeal timely ensued.

## DISCUSSION

1. *Civil Contempt Sanctions & Attorney's Fees*

Having found "clear and convincing" proof of violation of the court's 1981 consent judgment, *see, e.g., Hart Schaffner & Marx v. Alexander's Dep't Stores, Inc.*, 341 F.2d 101, 102 (2d Cir. 1965) (per curiam), the special master recommended, and rightfully so, that Bayard be held in civil contempt. Not only did Bayard engage in sustained and material violations of the consent judgment for prolonged periods of time, but, as the master recognized, it failed to ensure proper and effective compliance with the terms of that judgment. Bayard simply was not "reasonably diligent and energetic in attempting to accomplish what was ordered," *EEOC v. Local 638*, 753 F.2d 1172, 1178 (2d Cir. 1985) (quoting *Powell v. Ward*, 643 F.2d 924, 931 (2d Cir.), *cert. denied*, 454 U.S. 832 (1981)), *aff'd*, 478 U.S. 421 (1986).

Given the substantial violations and Bayard's failure "to energetically police compliance" with the consent judgment, 1 J. Gilson, *Trademark Protection and Practice* § 8.07[5], at 8-169 (1988), we think that contempt sanctions are particularly appropriate here, and that the special master and the district court erred in concluding that no relief was warranted. That Bayard's conduct may not have been willful does not preclude such an award, since "sanctions for civil contempt can be imposed without a finding of wilfulness," *Canterbury Belts Ltd. v. Lane Walker Rudkin, Ltd.*, 869 F.2d 34, 39 (2d Cir. 1989); *see McComb v. Jacksonville Paper Co.*, 336 U.S. 187, 191 (1949).

It is well settled, however, that civil contempt proceedings must be "remedial and compensatory, and not punitive," *Sunbeam Corp. v. Golden Rule Appliance Co.*, 252

F.2d 467, 469 (2d Cir. 1958) (citing *United States v. United Mine Workers*, 330 U.S. 258, 304 (1947)), and any award resulting from such a proceeding should be "for the benefit of the complainant," *Gompers v. Buck's Stove & Range Co.*, 221 U.S. 418, 441 (1911); accord *Hicks v. Feiock*, 108 S. Ct. 1423, 1429 (1988) (where the relief provided in a contempt proceeding is a fine, "it is remedial when it is paid to the complainant"). Bayard argues that sanctions are inappropriate here because Sweater Bee has not demonstrated any injury, and that, consequently, an award of profits necessarily would be punitive.

Monetary sanctions for civil contempt traditionally have been awarded to compensate the plaintiff for injury caused by past noncompliance or to prevent continued disobedience. *Perfect Fit Industries, Inc. v. Acme Quilting Co.*, 673 F.2d 53, 56-57 (2d Cir.), cert. denied, 459 U.S. 832 (1982); *Vuitton et Fils S.A. v. Carousel Handbags*, 592 F.2d 126, 130 (2d Cir. 1979). When awarded as a means of compensation, however, a civil contempt fine is not always dependent on a demonstration of "actual pecuniary loss." *Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448, 455-56 (1932) (civil contempt proceeding for violation of injunction in patent infringement suit).

In *Leman*, the Supreme Court explicitly rejected a position identical to that embraced by Bayard in holding that "the concept of compensatory relief" includes profits derived by the contemnor from violation of a court order, *id.* at 455-57; see *United States v. Aberbach*, 165 F.2d 713, 715 (2d Cir. 1948); *John B. Stetson Co. v. Stephen L. Stetson Co.*, 133 F.2d 129, 130 (2d Cir. 1943) (per curiam). Such profits are "an equivalent or a substitute for legal damages," when damages have not been shown, and are recoverable "not by way of punishment but to insure full

compensation to the party injured." *Leman*, 284 U.S. at 456; accord *Sunbeam*, 252 F.2d at 470; *id.* at 471 (Hand, J., concurring); see *Connolly v. J.T. Ventures*, 851 F.2d 930, 932-34 (7th Cir. 1988); see also *Oral-B Laboratories, Inc. v. Mi-Lor Corp.*, 810 F.2d 20, 25-26 (2d Cir. 1987) (award of profits permitted on sales made in contempt of preliminary injunction to deter future infringement). Moreover, as this type of award "goes no further than to give to the plaintiff the profits derived by the defendant's wrongful conduct: it does not take from the defendant assets not related to its wrongful conduct," *Sunbeam*, 252 F.2d at 470; see *Connolly*, 851 F.2d at 934, it is not punitive, *Sunbeam*, 252 F.2d at 470.<sup>2</sup>

Contempt sanctions are to be imposed "once the plaintiff has proved that he has suffered harm because of a violation of the terms of an injunction," *Vuitton et Fils S.A.*, 592 F.2d at 130, but, under a theory of unjust enrichment, a contempt plaintiff is entitled to defendant's profits without submitting direct proof of injury, much less proof that any such injury "approximated in amount the defendant's profits," *Monsanto Chemical Co. v. Perfect Fit Products Mfg. Co.*, 349 F.2d 389, 395 (2d Cir. 1965), *cert. denied*, 383 U.S. 942 (1966); cf. *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 121-24 (9th Cir.) (unjust enrichment theory of recovery effectuates policies

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2 Even though Bayard may have "discontinued" its business and "terminated" all its employees, and Manhattan indicates that it has not used the Kimberly trademark "for several years," we are persuaded that civil relief is warranted here not merely to compensate Sweater Bee, but to ensure compliance with the consent judgment in the future. See *Oral-B*, 810 F.2d at 25. That such relief will have the added effect of vindicating the court's authority in no way suggests that sanctions awarded to Sweater Bee are punitive and not remedial. See *Hicks*, 108 S. Ct. at 1431 ("both civil and criminal [contempt] relief have aspects that can be seen as either remedial or punitive or both").



of Lanham Act), *cert. denied*, 391 U.S. 966 (1968). This is because an award based on the defendant's profits, resting upon principles of unjust enrichment, focuses on the defendant's wrongdoing, not on damage to the plaintiff. *See Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354, 363 (10th Cir. 1954) (in trademark infringement case, profits award "predicated upon the equitable principle of unjust enrichment, not the legal theory of provable damages").

The special master apparently concluded that Sweater Bee did not prove direct injury (which is not to say that no injury existed), that Bayard was not unjustly enriched and, therefore, that Sweater Bee was not entitled to any profits earned by Bayard from sales made in violation of the consent judgment. Based on the record before us, however, "it seems obvious that there must have been some economic injury to [Sweater Bee]," such as the loss of goodwill, *Monsanto Chemical Co.*, 349 F.2d at 396. The master did not find to the contrary. He merely found that Sweater Bee had not demonstrated any economic injury.

As to his conclusion regarding unjust enrichment, the special master apparently assumed that both Bayard and Sweater Bee had a concurrent right to use the unmodified Kimberly mark, and that, consequently, Bayard had a right to reap profits from its Kimberly sales. We think that the special master began his analysis with a faulty premise. Neither party possessed the right to use the Kimberly mark standing alone. Instead, each party was permitted to sell Kimberly merchandise only when the Kimberly name was accompanied by a source reference. Thus, Bayard had the right to sell not "Kimberly" goods, but "Kimberly by Bayard" goods. Under this approach, all of Bayard's

profits derived from goods sold without the requisite source reference were unjustly earned.

Accordingly, we hold that Sweater Bee is entitled to those profits derived by Bayard from the unlawful sales of Bayard's Kimberly merchandise—namely, the profits from sales made between February 27, 1981 and January 10, 1984, the period in which Bayard was in civil contempt of the district court's consent judgment. Of course, by "profits" we mean net profits, see *Murphy Door Bed Co. v. Interior Sleep Systems, Inc.*, 874 F.2d 95, 103 (2d Cir. 1989); *W. E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 665 (2d Cir. 1970), and note that the burden is on the contemnor "to prove any deductions for its costs from the gross revenues attributable to its contempt," *Oral-B*, 810 F.2d at 26; cf. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 54 (2d Cir. 1939) (overhead that does not assist in production of infringing item "should not be credited to the infringer; that which does, should be"), *aff'd*, 309 U.S. 390 (1940).

Before determining an appropriate award based on those profits, however, we pause to comment on the propriety of calculating profits at the appellate level. Though such matters ordinarily are best left to a trial court, we may determine Bayard's unlawful Kimberly net profits here because the record already contains all the evidence necessary to do so. See *Chris-Craft Indus., Inc. v. Piper Aircraft Corp.*, 516 F.2d 172, 186 & n.16 (2d Cir. 1975), *rev'd on other grounds*, 430 U.S. 1 (1977). Such evidence was submitted to the special master, who was charged with responsibility of computing damages in the event that he found Bayard in contempt. This case already has been protracted unduly, and "[w]e have no doubt that, given the tenacity of both sides, a remand would result in still



another appeal . . . .” *Id.* at 186. While “in certain types of cases the failure of the trial court to make necessary findings of fact on the issue of [calculating profits] requires a remand for such findings,” *id.* at 186 n.16, we need not remand this matter since “the critical evidence is largely documentary” and the testimony of the experts essentially tracks the written evidence, *id.*; see *Barnes v. Santacroce*, 815 F.2d 888, 889 (2d Cir. 1987) (per curiam); *Mallis v. Bankers Trust Co.*, 717 F.2d 683, 697-99 & n.2 (2d Cir. 1983) (Newman, J., concurring).

We start, then, for purposes of this case, with Bayard’s gross sales in its Kimberly line for the relevant period less discounts; both Sweater Bee and Bayard agree that this amount comes to \$2,165,074. From these sales, Bayard bears the burden of demonstrating deductions for costs and expenses: It must prove not only that it has borne the particular cost or expense but also that the cost or expense is attributable to its unlawful sales. See *Oral-B*, 810 F.2d at 26; *W. E. Bassett*, 435 F.2d at 665; cf. *Louis Vuitton S.A.*, 765 F.2d at 973. Bayard has sustained its burden as to the costs of goods sold, and the gross profit remaining after that deduction is \$786,298.

Next, we consider various enumerated expenses for which Bayard may be entitled to a deduction. As to the sales commissions, returns, samples and markdowns, shipping costs, interest on money borrowed from its corporate parent, and taxes that it claims, we find sufficient support in the record to conclude that Bayard has sustained its burden, see *Kamar Int’l, Inc. v. Russ Berrie & Co.*, 752 F.2d 1326, 1332-33 (9th Cir. 1984) (expenses deductible where the contemnor can adequately demonstrate that they “actually contributed to the production, distribution or sales of the [unlawful] goods”). Bayard

there is entitled to a deduction for these enumerated expenses in the amount of \$619,341.

Bayard also seeks to deduct selling expenses, or overhead, totalling \$281,730 for the three year period. We are not convinced, however, that Bayard is entitled to the entire deduction claimed for this item. Although Bayard need not prove its overhead expenses and their relationship to the production of the contemptuous goods in "minute detail," *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 516 (9th Cir. 1985) (citing *Sheldon*, 106 F.2d at 52), it still must carry its burden of demonstrating a sufficient nexus between each expense claimed and the sales of the unlawful goods. The rationale for this rule is obvious: Because Bayard manufactured the goods that were found to have violated the consent judgment and presumably maintains records of its sales and production, Bayard, and not Sweater Bee, is obliged to produce satisfactory records of, and demonstrate with sufficient particularity, its Kimberly overhead. Bayard, however, has offered grossly inadequate evidence of its Kimberly overhead; the record contains only data pertaining to Bayard's overall selling expenses. For example, Bayard's detailed schedules of fixed expenses for the relevant three year period do not indicate whether and to what extent Bayard's expenses are attributable to its Kimberly production.

Bayard attempts to compensate for this evidentiary shortcoming by estimating its Kimberly overhead as 9.5% of its Kimberly net sales for the 1981 fiscal year, 12.8% for the 1982 fiscal year, and 22.9% for the 1983 fiscal year. These percentages apparently are derived by dividing Bayard's total overhead by its total net sales for all its lines, including Kimberly. There is some support for the propo-

sition that a party may approximate overhead in the absence of reliable data pertaining to actual overhead. See *Frank Music*, 772 F.2d at 516; *Kamar*, 752 F.2d at 1333. Bayard, however, has not adequately demonstrated that reliable data are unavailable. Estimates should not be used unless such a showing has been made. See *Wilkie v. Santly Bros., Inc.*, 139 F.2d 264, 265 (2d Cir. 1943) (in apportioning overhead, there are no "hard and fast" rules; profits, however, "must be determined as fairly and as accurately as the circumstances of the case will permit"), *cert. denied*, 322 U.S. 740 (1944). Accordingly, based on the record before us, see *Chris-Craft*, 516 F.2d at 186 & n.16, we hold that Bayard is not entitled to the overhead expenses deduction that it claims. Nevertheless, because Sweater Bee concedes that Bayard is entitled to a deduction for this category of expenses of \$19,758, clearly a reasonable figure, see *W. E. Bassett*, 435 F.2d at 665, we deduct that amount.

After making the necessary calculations, we conclude that Sweater Bee is entitled to an award representing Bayard's unlawful Kimberly net profits in the amount of \$147,199, plus interest calculated as of August 17, 1988, the date of the district court's judgment. See 28 U.S.C. § 1961(a) (1982); Fed. R. App. P. 37. Since the net profits are shown sufficiently in the record, no further accounting is necessary.

As to attorney's fees, courts in this Circuit generally "award the reasonable costs of prosecuting the contempt, including attorney's fees," only where violation of a court order is found to have been willful. *Canterbury Belts*, 869 F.2d at 39 (quoting *Vuitton et Fils S.A.*, 592 F.2d at 130); *W. E. Bassett*, 435 F.2d at 664-65 & n.5; accord *Fleisch-*

*mann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 718 (1967). While Bayard's course of conduct over a period of years may have "demonstrated a callous disregard for the rights of [Sweater Bee] and for the mandates of the federal courts," *W. E. Bassett*, 435 F.2d at 664, the special master and the district court determined that Bayard did not willfully violate the consent judgment. We see no reason to disturb that finding, and therefore decline to award attorney's fees.

## 2. *The Special Master's Fees & Expenses*

The special master, in imposing on Sweater Bee one-third of his fees and expenses, took into account the "numerous failures" of Sweater Bee's counsel "to meet discovery deadlines" as well as counsel's "conduct throughout the proceedings." The special master also recognized Manhattan-Bayard's responsibility for some delay in the proceedings, and concluded: "Bayard should be held responsible for its own conduct, but it should not suffer prejudice because of [Sweater Bee's] counsel's conduct. Nevertheless, the overriding fact is that it was Bayard's failures that brought us here in the first place."

Certainly the special master was in the best position to judge the nature of both parties' conduct and to apportion his fees and expenses accordingly. We cannot say, therefore, that the district court abused its discretion in approving the apportionment. *See Apponi v. Sunshine Biscuits, Inc.*, 809 F.2d 1210, 1220 (6th Cir.), *cert. denied*, 108 S. Ct. 77 (1987); *Morgan v. Kerrigan*, 530 F.2d 401, 427 (1st Cir.), *cert. denied*, 426 U.S. 935 (1976).

### 3. *Costs & Sanctions on Appeal*

On appeal, Bayard requests (1) an award of costs, including attorney's fees, for having to defend in this Court the district court's assessment of costs against Sweater Bee; (2) sanctions pursuant to Fed. R. App. P. 38 for Sweater Bee's prosecution of a frivolous appeal regarding the allocation of the special master's fees; and (3) sanctions pursuant to section 38 of the Rules of the Second Circuit because of Sweater Bee's dilatory and improper conduct on this appeal (e.g., four extensions of time to file its brief; motion to file an oversize brief (244 pages) made nine days after the brief was filed; joint appendix filed three weeks late).

We decline to award any such costs or sanctions. Appealing the assessment of the master's fees and expenses hardly was frivolous; Sweater Bee prevailed below on the contempt issue and the district court had ordered that the "ultimate responsibility" for the master's fees was to abide the event. Likewise, given the discretionary nature of Second Circuit Rule § 38, Sweater Bee's conduct was neither "grossly delinquent," as Bayard would have us believe, nor sufficiently remiss so as to warrant the imposition of sanctions under that Rule.

### CONCLUSION

The judgment of the district court is reversed to the extent that it declined to award contempt sanctions and the matter is remanded for entry of a judgment in the amount of \$147,199 plus interest from August 17, 1988. The judgment is affirmed to the extent that it denied Sweater Bee its attorney's fees and imposed upon Sweater Bee the obligation of paying one-third of the special mas-

ter's fees and expenses. Bayard's request for costs and sanctions on appeal is denied. In light of our disposition today, we trust that Sweater Bee will withdraw with prejudice its claims in the 1981 action, as it has indicated it would.

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

79 Civ. 5346 (VLB)

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MANHATTAN INDUSTRIES, INC., et al.,

*Plaintiffs, Contempt-Defendants,*

—against—

SWEATER BEE BY BANFF, LTD., et ano.,

*Defendants, Contempt-Plaintiffs*

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ORDER

VINCENT L. BRODERICK, U.S.D.J.

This matter was referred to Special Master Neal Hurwitz to hear and report with respect to whether Bayard, and various other plaintiffs, should be held in civil contempt of the consent judgment entered into on February 27, 1981. If contempt existed, the special master was to consider the amount, if any, of damages suffered by defendants.

I have reviewed the master's report and have considered the objections filed by Sweater Bee by Banff, Ltd. I approve and adopt the special master's report. Bayard is hereby held in contempt of the consent judgment. Sweater Bee is entitled to neither damages, nor an accounting, nor attorneys' fees. Bayard shall, however, be liable for two-thirds of the special master's fees.

SO ORDERED.

VINCENT L. BRODERICK  
Vincent L. Broderick, U.S.D.J.

Dated: New York, New York  
July 13, 1988



UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

79 Civ. 5346 (VLB)

(Civil Contempt Proceeding)

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MANHATTAN INDUSTRIES, INC., BAYARD SHIRT  
CORPORATION and DON SOPHISTICATES, INC.,

*Plaintiffs,*

—against—

SWEATER BEE BY BANFF, LTD.,  
and ROBERT BELSKY,

*Defendants.*

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APPEARANCES: Davis, Markel, Dwyer & Edwards  
Thomas J. Sweeney, III and  
Cynthia A. Feigin, of Counsel  
and

McAulay, Fields, Fisher, Goldstein & Nissen  
Paul Fields, of Counsel

for Plaintiffs

Dennis Grossman  
Eileen King, of Counsel

for Defendants

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SPECIAL MASTER'S REPORT

This case involves the use of the trademark Kimberly on women's apparel. General Mills, Inc. owned this registered trademark until May 1979 at which time it abandoned the Kimberly mark. Thereafter, the parties herein both claimed the



right of ownership in the Kimberly mark and began shipping goods under that label. In October 1979, Manhattan Industries, Inc. and Bayard Shirt Corp. (hereinafter collectively referred to as "Bayard") commenced an action against Sweater Bee by Banff, Ltd. (hereinafter "SB") seeking to enjoin SB's continued use of the Kimberly name. In July 1980, the Second Circuit found that both sides had equal right to use the Kimberly mark provided that each company differentiated its product from that of the other company. *Manhattan Industries, Inc. v. Sweater Bee by Banff, Ltd.*, 627 F.2d 628 (2 Cir. 1980).

On remand to the district court, Bayard and SB entered into a consent order (the "Order") on February 27, 1981, which was incorporated into a judgment of this Court, Vincent L. Broderick, J. The Order, which is at issue in this proceeding, provided that each of the parties obtained the right to use the Kimberly trademark or tradename in connection with the sale, distribution, and advertising of women's wearing apparel on all advertising material, brochures, labels, envelopes, business cards and the like, but only when accompanied by a source reference in close proximity to the Kimberly mark. The source reference was to include the word "by" immediately followed by the name, tradename or recognizable abbreviated name of the source, e.g., "Kimberly by Sweater Bee," "Kimberly by Bayard."

In 1981 SB instituted an action against Bayard and others which contained numerous claims not relevant to this proceeding. (81 Civ. 3975 (VLB)) In March 1982 SB filed an amended complaint which alleged numerous source reference violations of the Order under 15 U.C.C. § 1125(a) (Lanham Act). In December 1983 in 81 Civ. 3975, SB moved to add to this complaint (1) a claim for civil contempt for violations of the Order against Bayard and certain proposed individuals and for partial summary judgment on this claim, and (2) for a trial on criminal contempt involving the same conduct. On August 23, 1984, Judge Broderick denied the motions relating to civil contempt and placed on suspense the motion for a criminal contempt trial.<sup>1</sup> Judge Broderick did however refer the issues relating to civil contempt to a special master and designated me as such.

I was directed:

- (1) to schedule and hold an evidentiary hearing,
- (2) to determine what discovery will be permitted with respect to the hearing,
- (3) to hear and report to Judge Broderick as to whether there was a civil contempt of the February 27, 1981 consent judgment in 79 Civ. 5346, and
- (4) "if there has been such civil contempt, as to the amount of damages, if any, suffered by [Sweater Bee] as the result of such civil contempt."

Judge Broderick also stated that this civil contempt proceeding before me should be under the caption of the earlier action in 79 Civ. 5346.

In this civil contempt proceeding, SB claims that Bayard committed numerous violations of the Order by using the Kimberly name without a source reference. Sweater Bee seeks as damages an accounting of Bayard's Kimberly revenues or gross profits. For its part, Bayard responds that, while violations of the Order may very well have occurred, a good faith effort to comply with the Order was made and any failure to use a source reference was inadvertent. Moreover, even if Bayard is found to be in contempt, SB has totally failed to demonstrate that it suffered actual damages as a result of the violations of the Order.

In this proceeding, thousands of documents were exchanged and numerous witnesses were deposed during discovery. The hearings, beginning in March 1985 and ending in October 1985, involved 3,200 pages of trial transcript. The witnesses included five experts. Lengthy post-hearing briefs were filed, and countless numbers of letters, each often several pages in length (particularly from counsel for SB requesting some form of relief were submitted for consideration.

## THE PARTIES

Manhattan Industries, Inc. is engaged in the design, marketing, licensing and retailing of men's, women's and children's wearing apparel and accessories. Manhattan's revenues in the

fiscal years ending January 21, 1979 through January 31, 1984 ranged from \$314,865,000 to \$432,992,000. Most of Manhattan's operating profit comes from the design and marketing of apparel and accessories at wholesale to department and specialty stores, for resale by those entities to the ultimate customer. During the period fiscal 1979-1984, Manhattan and its subsidiaries marketed apparel under many labels and trademarks.

Bayard International (formerly known as Bayard Shirt Corporation) is a division of Manhattan with its main offices in Ocala, Florida. Until August 1984, Bayard was a wholly-owned subsidiary of Manhattan. The sales of Kimberly merchandise at issue in this proceeding were made solely by Bayard, not by Manhattan or any of its other subsidiaries. Bayard designs, manufactures and markets women's apparel under a number of trademarks. During the period 1979-January 31, 1984, Bayard manufactured women's wear apparel under more than ten trademarks, including the Kimberly label. Bayard's other labels have included such well known names as "Lanvin", Pierre Balmain" and "Images by Krizia." In the last five years, Bayard's sales of Kimberly apparel were never more than \$1.05 million in any one year out of Bayard's total annual sales of between \$12.7-\$19.4 million. Bayard stopped its Kimberly line in the fall of 1984.

Donald Kallman is Vice-Chairman of the Board and Executive Vice-President of Manhattan.<sup>2</sup> Prior to the time Bayard merged was merged into Manhattan, he was also Vice-President of Bayard, as he was of all Manhattan's subsidiaries. Mr. Kallman is Manhattan's principal financial, administrative and legal officer.

Robert Hamel is the Executive Vice-President of Bayard. He is Bayard's chief administrative officer and is responsible for the manufacturing and production of Bayard apparel.

Champpierre Ltd. ("Champpierre") is a company which, from 1975 to March 31, 1984, acted as a sales agent for Bayard in selling Bayard's apparel, including Kimberly merchandise, from Bayard's showroom at 1400 Broadway in New York. Fred Feldstein is the President and Secretary of Champierre.

Sweater Bee by Banff, Ltd. is a privately held company that is also engaged in the manufacture and marketing of wearing apparel. Herbert Herling is the President of SB. In the period 1981-1984, SB marketed apparel under a number of trademarks including "Hush Puppies", "Sasson", "Stanley Blacker", and others, in addition to the Kimberly mark. Sweater Bee stopped its Kimberly line in early 1983. Sweater Bee, over the fiscal years ending January 31, 1979 to 1984, had net sales of from approximately \$15 million (1979) to approximately \$33.7 million (1982).

## FINDINGS OF FACT

### I. Bayard's Post-Order Conduct

#### A. *Labels & Hang Tags To be Placed on Garments*

In February 1981 Bayard ordered 25,000 new "Kimberly by Bayard" labels, 26,000 "Kimberly Sport by Bayard" labels and, in March 1981, ordered new hang tags to read "Kimberly by Bayard." A rubber stamp, which read "by Bayard," was also ordered and was received on or about February 26, 1981. Mr. Hamel testified they planned to use the stamp to hand-stamp old Kimberly tags with the Bayard source reference in order not to have to throw away the existing inventory of tags. When the new labels and hang tags were received the old ones without a source reference were not disposed of. The new labels were stored near the old ones and the outsides of the boxes containing the labels showed which labels were inside which boxes.

For the first ten months or so after the entry of the Order, the Kimberly merchandise sold by Bayard was manufactured overseas. Prior to the signing of the Order Hamel had instructed the overseas suppliers to include the words "by Bayard" on the labels and hang tags on the merchandise as well as the plastic bags in which these knitted garments were shipped to Bayard. The instructions seem to have been effective. There is no evidence or allegation that any imported merchandise was improperly labelled, tagged or bagged. The imported merchandise was shipped from Bayard's facility in Florida to its customers until about January of 1982.

The evidence further indicates that only source referenced labels were removed from domestic inventory through July of 1982. Thus, from February 1981 through July 1982, it would appear that all Kimberly merchandise shipped to stores had proper source reference identification. However, beginning in August 1982 until about March of 1983 Bayard's Ocala inventory records show that the inventory of Kimberly Sport labels—without a "by Bayard" reference—decreased by 13,000. During the same period, the records demonstrate that the inventory of Kimberly Sport by Bayard labels was reduced by 25,000. It would appear therefore that the Bayard employees mistakenly sewed many of the old retained labels on garments which were shipped out during this eight month period. In May of 1983 the remaining old labels were finally destroyed.

In March and May of 1983, dresses bearing "Kimberly Sport by Bayard" and "Kimberly by Bayard" labels were for sale at Bloomingdale's Manhattan store mixed in with dresses with labels which lacked the source reference. In March, SB's President, Mr. Herling, purchased at Bloomingdale's seven of the dresses bearing labels without the source reference (which are in evidence); these also have old "Kimberly" hang tags attached to the sleeves. On a separate occasion in May of 1983, a SB employee purchased at Bloomingdale's two additional dresses (also in evidence), similarly mislabelled and mistagged. After Bayard's counsel learned from SB's legal papers that there had been improperly marked garments at Bloomingdale's, Bayard personnel in May of 1983 checked three Manhattan stores and found the following: at Bloomingdale's 109 of its Kimberly dresses, 71 "without a source designation" and 38 with the correct label; at Macy's approximately 9 garments without, 26 with, the source designations; and at Lord & Taylor, all had the correct designation. (Feldstein Aff. at 2-3, SB Ex. 220). There is no evidence as to whether the correct hang tags were or were not used in the garments seen in Bayard's visits to these stores.

I find that until August of 1982 the garments shipped from Ocala contained labels with the source reference, but that subsequently the number of garments shipped with improper labels was probably substantial, albeit that there were properly labelled garments being shipped in the same period. Clearly it



was a mistake to hang on to the old labels as their presence invited error. Similarly, it was not unforeseeable that saving the old tags might cause error or confusion, and if the policy to rubber stamp them were to work it would have been much safer to do so as soon as the rubber stamp was received in February 1981 so that there would be no unreferenced hang tags hanging around the plant. It is possible that no one focused on these potential problems because during the time period following the Order the garments were being manufactured, labelled and tagged overseas, but it certainly proved to be a silly and costly oversight at best. I do not find, however, any intentional, deliberate effort by Bayard to ship garments with the wrong labels or tags. And there is no evidence that improper labels or tags were used by Bayard in garments after May 1983.

#### *B. Invoices*

Bayard sent out invoices to customers at the time of shipment of previously ordered goods. Usually the invoice was in an envelope attached to the box containing the garments. Bayard decided not to throw out its current supply of invoices when the Order was signed, but to hand-stamp the words "by Bayard" on the existing ones in order to save money. Hamel testified that Bayard intended to use on the invoices the same rubber stamp that was to be used for the hang tags. In August of 1981 (six months after the Order was entered) Bayard ordered new invoices which read "Kimberly by Bayard." These invoices were received by Bayard on or about September 11, 1981. The evidence is unclear as to whether the rubber stamping policy was ever carried out. The shipping department supervisor testified that he instructed the appropriate employees to rubber stamp the invoices when they filled them out and checked to make sure they were doing so "for the first three or four days." (Roberts Dep. at 63, SB Ex. 219). However, SB introduced into evidence the results of a study conducted by the Roper organization indicating that "any imprinting . . . with the words 'by Bayard' " on the 2715 invoices sent to Bayard's customers dated after February 27, 1981, and before July 29, 1982, "was

virtually non-existent—if there was any imprinting at all.” Roper Report, SB Ex. 185 at 5.

By July 29, 1982 (about one year after the receipt by Bayard of source-referenced invoices), Bayard began using the new properly referenced invoices and only five improper ones appear to have been used thereafter. (SB Ex. 243B at 152, SB Ex. 221).

I find that, while some invoices may have gone out in proper form in the period from February 1981-July 1982, by and large they did not, and that the “rubber stamping” policy for invoices, however conceived, was not effectively implemented or supervised.

Sweater Bee alleges that a cover-up scheme was perpetrated by Bayard with respect to the duplicates of invoices retained by Bayard, pointing to three voided invoices rubber stamped “by Bayard” but pre-dating the receipt of the rubber stamp by Bayard in February 1981. Sweater Bee argues that this evidence by itself demonstrates fraudulent intent to mislead SB and the court as to the execution of the rubber stamping policy.

Mr. Hamel testified that he never instructed anyone at Bayard to “back stamp” (put the stamp on the retained invoices after the fact) the invoices nor had any knowledge that that was done. I credit Hamel’s testimony and find no evidence from which to reasonably conclude that there was a scheme by Bayard to deceive others by back stamping retained invoices. Sweater Bee’s argument is extremely speculative. When, why and by whom these particular invoices were stamped remains in my view a matter of pure conjecture, and I find that there is no basis for imputing evil motive.

### *C. Dealings with Salesmen*

Bayard marketed its Kimberly line through salesmen in an independent contractor relationship with the company. Mr. Hamel testified that he told Ted Schull, a Bayard officer who supervised Bayard’s sales, to do whatever was necessary to comply with the Order as sales and marketing were not Mr. Hamel’s province. There is no other evidence of contacts with salesmen regarding the provisions of the Order, although

Hamel testified that if there had been any written directions they would have been in sales bulletins which were kept only for the season. (5/8/85 Tr. at 472-3.) If Bayard made any efforts to ensure that the salesmen used the source reference in dealing with customers, they clearly failed in several instances.

### *1. Tradeshow*

Salesmen participate in several regional centralized "markets" where many manufacturers' sales representatives gather to show their lines to the many buyers who also attend. For several such trade shows between June 1981 and February 1982 there are in evidence directories in which a listing and/or an advertisement for Bayard's Kimberly products appear without a source reference. (SB Ex. 132, 133, 135, 136, 138, 139). While Bayard covered all or part of the cost of these ads, it did not place them or see them before they were printed.

### *2. Sales order forms*

Salesmen were supplied by Bayard with a "sales order form," which was normally for use when a salesman visited a small store that did not submit its own purchase orders. Department stores used their own order forms. If a salesman chose to use this form (rather than phone the order in, for example), he might leave a copy with the customer. Thus, while the forms were not designed to be sent to customers, it was not an unlikely possibility that a carbon part of the form could have been left with the customer. The earliest evidence that sales order forms printed with "by Bayard" were sent to a salesman is in June 1983.

### *3. Salesmen contracts*

There are in evidence ten Bayard Kimberly salesmen's contracts (nine of which are signed by the salesmen) ranging in time from September 1979 to June 1984. They seem to be a standard form. Six predate the Order, and two after the Order lack the "by Bayard" (10/1/81 and 3/22/82). There are also four welcome letters to salesmen from Mr. Schull, one in 1981, one in



1982 and two in June 1984. The source reference appears only in the 1984 letters. These letters and contracts, of course, were not destined to be seen by the public and thus themselves may not come within the scope of the Order, but the fact that the source reference was not added, and that Mr. Schull in his standard welcome letter wrote "Welcome to Kimberly", rather than "Welcome to Kimberly by Bayard" suggests that no serious effort was in fact made to update salesmen and get them in the habit of thinking of the Kimberly name as including the "by Bayard" reference.

#### 4. *Business Cards*

Kimberly business cards without the source reference were ordered for particular salesmen on three different occasions in 1981 and 1982 (SB Ex. 77-82). The orders were placed by a Bayard clerical employee, and normally only if a salesman requested the cards. In May of 1983 business cards with the source reference were ordered for the salesmen in the New York showroom. Without knowing any more about the use of these cards, any conclusion about their impact would be totally speculative. The inference I do draw from this evidence, however, is that it is another example of the lack of thorough and/or sustained consciousness of the need for the source reference on the part of Bayard employees, and an indication that it was not stressed with the sales force.

#### D. *Stationery and Such*

Nine letters from various people at Bayard to customers (plus one to a complaining consumer, SB Ex. 34) were sent out on Kimberly stationery without the "by Bayard" reference between March 1981 and late April 1983. (SB Ex. 18, 33, 36, 37, 44, 70-73). Mr. Hamel testified that his secretary and other employees were under instruction to add the source reference when they typed or wrote letters (or "speed letters.") Nine unmarked speed letters were sent to customers between February 1982 and August 1983. Four letters dated between summer 1983 and summer 1984 on which the "by Bayard" was added to old letterhead are in evidence. (SB Ex. 39, 74, 75, 76). Bayard

apparently rarely had written correspondence with customers, but it would appear that what little it did have (for the most part relating to return of merchandise or other post-purchase matters) was on letterheads or speed letter forms lacking the source reference until June of 1983.

By March 1984 Bayard was using new "Bayard International" stationery (SB Ex. 40) listing its various marks including "Kimberly by Bayard."

#### *E. Advertising at the Consumer/Retail Level*

The only indications of any consumer level advertising in evidence relate to "counter signs," newspaper advertisements and one store catalog.

Counter signs were tent-shaped signs, six or eight inches long, which were sometimes sent to customers for display in their stores. There is no indication that Bayard made new counter signs after the Order or modified the existing ones. The invoices in evidence (SB Ex. 221) indicate that 648 old signs were sent out to customers between June 11, 1981 and July 30, 1982.

Under an arrangement referred to as co-op advertising, Bayard sometimes covered all or part of the expense when a retailer advertised Bayard's product(s). Seven ads with no source reference were run by I. Magnin, at least three of which were partially paid for by Bayard, in 1981 and 1982 (SB Ex. 147, 148, 151, 152 and 5/9/85 Tr. at 666-701). Bayard personnel usually saw an ad after it was run but before the credit to the customer's balance was authorized. (5/8/85 Tr. at 684-6.) Sometime in the fall of 1984 a retailer in Hawaii ran a newspaper ad without source reference for which Hamel refused to pay. (SB Ex. 154, 158 and 5/9/85 Tr. at 706.)

A retail store called Hamburger's included a Bayard Kimberly dress ad in its Fall/Winter 1982 catalog. This ad lacked the source reference. According to Hamel, this store was one of Mr. Feldstein's accounts and he authorized the credit to the store to cover the cost.

## F. *The New York Showroom*

Bayard maintained a showroom at 1400 Broadway in Manhattan under the local supervision of Feldstein.

1. The building directory in the lobby of 1400 Broadway listed Kimberly, Kimberly Sport and Kim's by Kimberly. The earliest evidence of an attempt by Bayard to cause "by Bayard" to be added to these lobby listings dates to July of 1983 when the managing agent received and followed instructions to that effect (SB Ex. 215, Helmsley Spear Dep. at 9-10, 12-14). Anyone going to the showroom itself would have seen "Bayard" on the door as he approached. Mr. Hamel testified that after learning the lobby listing was improper he called Mr. Feldstein who said he would take care of it. (5/8/85 Tr. at 589-590.)

2. In 1982, 1983 and 1984 a company called Buyers Secretary Publishing Co. printed directories for the building at 1400 Broadway. Kimberly ads (lacking a source reference) appeared in three directories. In July 1983 Mr. Hamel complained to the publisher about the lack of a source reference in the 1983 directory and refused payment for the ads. In a subsequent edition the source reference has been added. (SB Ex. 125, 5/8/85 Tr. at 575.) But in 1984 one of the Kimberly ads appeared without a source reference. (SB Ex. 128 at 13039.)

3. In the 1981-2 Manhattan telephone book Bayard's Kimberly was listed without a source reference, and Sweater Bee had no Kimberly listing. In the 1982-3 phone book, there appear two listings: a "Kimberly" (with the Bayard telephone number) and a "Kimberly by Banff." In January 1984 a letter was sent to New York Telephone by Bayard to change the "Kimberly" to "Kimberly by Bayard."

## II. Further Findings

### A. *Bayard's efforts*

As to Bayard's post-Order conduct, there is a lack of evidence of a thorough, considered effort to make a plan of attack on compliance that covered the waterfront in depth and involved the type of attention to detail that would have pre-

vented the problems that occurred. And there would appear to have been little follow-through once initial instructions to employees and suppliers had been given.<sup>3</sup>

#### B. *Competition*

There is little evidence as to the level of competition between SB and Bayard, whether or to what extent they sought the same retailers as customers or aimed at the same segment of the ladies wear market.<sup>4</sup> There is likewise a lack of evidence as to the similarity of their products. A lack of direct competition would not defeat a finding of contempt obviously, but the existence of significant competition would be relevant on the causation and damage aspects of the controversy.

#### C. *SB Kimberly business*

There is very little in the record as to the nature and success—or lack thereof—of SB's Kimberly venture. To what degree, if any, SB was capable of being affected by or vulnerable to any conduct of Bayard is a question that remains unanswered. A decline in sales would not by itself be dispositive of course, but for all I know SB may have done very well with its Kimberly line. The fact that it has ceased using the Kimberly mark, at least for a couple years if not for good, has been in no way shown to be related to the conduct of Bayard.

Similarly, I have no evidence as to the extent of SB's own marketing efforts or the profitability of its Kimberly line, no information such as projections for the Kimberly line, size of profits, etc. For example, if SB had to increase its advertising to compete with Bayard's Kimberly line because of the labelling errors, that could be relevant to damages or to an allegation of lost profits by SB. See, e.g., *Cuisinarts, Inc. v. Robot-Coupe Int'l. Corp.*, 580 F. Supp. 634 (S.D.N.Y. 1984). However, there is no evidence as to lost sales or as to profits, lost or otherwise, or of any type of pecuniary harm to SB.

#### D. *Confusion*

Meaningful, also, is the lack of testimony from SB customers or potential customers and the lack of evidence from which reasonably to conclude that any customer, consumer or anyone at all was confused or deceived. There is no indication, for example, that a purchaser of a Bayard Kimberly dress thought it was manufactured by SB or would have preferred to buy a SB product or thought that there was such a thing as "the real Kimberly."<sup>5</sup>

#### E. *Goodwill*

There is no evidence as to the level of goodwill SB may have established relating to its Kimberly line or that it experienced any loss of good will either due to Bayard's, or for that matter, its own or anyone else's conduct. Nor is this a case where the evidence suggests that Bayard's product was inferior to SB's and its sale without a source reference could have injured SB's reputation or that Bayard was trading on the good will SB had built up.

In sum, there is insufficient basis for one to conclude that any sale by Bayard was at SB's expense.

### CONCLUSIONS OF LAW CONTEMPT

The purpose of the civil contempt proceedings herein is remedial—to compensate the complainant for loss caused by disobedience of a court decree. See *In re Irving*, 600 F.2d 1027, 1037 (2 Cir.), *cert. denied*, 444 U.S. 866 (1979); *Parker v. United States*, 153 F.2d 66, 70 (1 Cir. 1946). The complainant must demonstrate by clear and convincing evidence that there has been a failure to comply with such a decree. *In re Irving*, *supra*, 600 F.2d at 1037. The case law is clear that proof of willfulness is not necessary to support a finding of civil contempt, but it has also been stated that mere negligence or unintentional non-compliance may be insufficient to find liability.<sup>6</sup> *Powell v. Ward*, 643 F.2d 924, 931 (2 Cir.), *cert. denied*, 454 U.S. 832

(1981); *N.L.R.B. v. Local 282*, 428 F.2d 994, 1001 (2 Cir. 1970); *Zayas v. Heckler*, 585 F. Supp. 1109, 1111 (S.D.N.Y. 1984); *United States v. Swingline, Inc.*, 371 F. Supp. 37, 44 (E.D.N.Y. 1974).

In this case, Bayard asserts that it made a good faith, diligent effort to comply with the Order through a compliance program and that the violations which did occur were unintentional due to oversights by the employees. Moreover Bayard argues that it had no motive to violate the Order knowingly and willfully.

Bayard's conduct here plainly does not meet the required legal standards to avoid a finding of contempt. Bayard's pattern of omissions to comply thoroughly with the Order reaches a level beyond mere negligence. Bayard simply did not make the diligent, consistent efforts that were necessary. It failed "to take all possible steps to achieve the end of literal compliance." *Andre Matenciot v. David & Dash, Inc.*, *supra*, 422 F. Supp. 1199, 1207 (S.D.N.Y. 1976). The Order "required more intensive effort than [Bayard] was willing to devote to the task." *United States v. Swingline*, *supra*, 371 F. Supp. at 44.

While it is true that Bayard did make an initial effort to comply in certain significant areas, there is no acceptable excuse for the numerous violations of the Order. Many of the errors and oversights were, if viewed in isolation, minor and inadvertent, but viewed in the aggregate they take on significance and clearly indicate a lack of serious attention. The Order called for energetic steps to be taken and this Bayard failed to do.

I find that there is clear and convincing evidence of Bayard's failure to comply with the Order, and accordingly, find Bayard in civil contempt.

Sweater Bee also seeks to hold the following other entities and individuals in contempt: Manhattan Industries, the parent company of Bayard; Donald Kallman, Vice-Chairman of Manhattan's Board, Executive Vice-President of Manhattan and its principal financial, administrative and legal officer; Robert Hamel, Executive Vice-President and chief administrative officer of Bayard, with responsibility for the manufacturing and production of Bayard apparel; and Champierre, Ltd., a company which acted as a sales agent for Bayard including the Kimberly apparel, and Champierre's president Fred Feldstein.



Sweater Bee urges that Manhattan and Mr. Kallman failed to exercise sufficient affirmative control and authority over Bayard to make certain that Bayard was acting in conformity with the dictates of the Order. Manhattan and Mr. Kallman respond that they took sufficient steps to insure compliance and delegated the responsibility for execution of the Order to others. Although Manhattan and Kallman were fully aware of the contents of the Order, I find that there is insufficient affirmative proof of misconduct by them to hold them responsible for the violations which occurred. See *Backo v. Local 281*, 438 F.2d 176, 180-81 (2 Cir. 1970), *cert. denied*, 404 U.S. 852 (1971). As to Champierre and Mr. Feldstein, there simply is no evidence in the record to support a finding of contempt.

Robert Hamel is a much closer question. Hamel was the person at Bayard with the responsibility to carry out the provisions of the Order. The evidence showed that he made a good faith attempt at compliance during the period immediately following the signing of the Order, but failed to follow through energetically in its execution throughout the entire period. Having found Bayard liable for contempt, it is arguable that the individual primarily responsible for Bayard's conduct should also be held in contempt. However, having spent considerable time over the course of months during the hearing observing and listening to Mr. Hamel, I found him to be a credible witness. There is no doubt that he did not exhibit the consistent punctiliousness in complying with the Order that that Order deserved, but I expressly find a lack of bad faith on his part. And I am sure that had Mr. Hamel at some point in the past had an insufficient appreciation of the seriousness of a court order, he has no doubt about it any longer. I decline to hold Hamel in contempt.

### DAMAGES

Having found Bayard guilty of contemptuous conduct, I now turn to the issue of damages, an issue of more complexity than the determination of contempt. I will first attempt to synthesize and delineate SB's arguments.

### *Sweater Bee Arguments*

Sweater Bee's position is that the Order enjoined all use of "Kimberly" unless in strict compliance with the terms of the Order, *i.e.*, the word "Kimberly" can be used only if accompanied by a source reference; that Bayard violated the Order in various ways, some of which continued even after SB brought violations to Bayard's attention by its filing of an amended complaint in March 1982. SB further contends that it was only after a May 1983 decision of the Court ordering disclosure of documents by Bayard that Bayard "ceased its contempt," and that one concomitant effect of this "gunpoint compliance" was Bayard's decision to drop its Kimberly Line. SB pre-trial br. at 2-4.

Sweater Bee seeks an accounting of either Bayard's Kimberly revenues or profits. Lacking proof of actual damages, it urges a legal argument that spares it from meeting the standards prerequisite to an accounting in Lanham Act and contempt situations. The arguments can be summarized as follows:

A. Sweater Bee is entitled to an accounting under "strict liability" standards.

1) The party bound by the injunction—especially a consent decree—is on notice as to the nature of prohibited conduct. Therefore, there is no need to examine any mental state underlying any act that violates the terms of the injunction. "There is strict liability for contempts of the consent source-reference injunction." SB pre-trial br. at 5-6. "The injunction . . . precluded any excuse for non-compliance." SB pre-trial br. at 11.

2) Given this "strict liability" standard, which serves the "two-fold purpose" of civil contempt (to compensate the plaintiff and defend the integrity of the court against those who defy its authority), "[t]he court must render a compensating decree." SB pre-trial br. at 8. It is argued that the Court does not have discretion to deny recovery when the plaintiff seeks a remedial, as opposed to a coercive, contempt remedy.

3) Bayard's lack of total compliance taints *all* its Kimberly sales after the entry of the Order. Thus, "Sweater Bee is entitled to recover the contempt defendants' gross Kimberly revenues



during their three years of ongoing and pervasive contempts." Such recovery is authorized, SB claims, by *Stevens Linen Associates, Inc. v. Mastercraft Corp.*, 656 F.2d 11 (2 Cir. 1981), in which "the defendant's sales were illegal at all times" and the plaintiff was awarded profits on illegal sales before the injunction and revenues from post-injunction sales, the award of revenues being "intrinsic to the injunction rather than to copyright law restrictions." SB characterizes Bayard's conduct as "illegal," claims that Bayard "continued perpetrating their brazen contempts" and urges that "[t]he egregious and massive nature of the present contempts warrants the full measure of relief awarded in *Stevens Linen*."<sup>7</sup> SB pre-trial br. at 11.

4) Alternatively, Sweater Bee is entitled to profits (if not revenues) because "contempt-defendants have no legitimate claim to retain their Kimberly profits relating to the period of contempt." Bayard should be fined in the amount of their profits, "in order to ensure that [they] receive no benefit from any activities relating to their contempts." SB pre-trial br. at 9-11, 14, 15.

B. Sweater Bee's primary argument is that it is entitled to an accounting under Lanham Act principles.

1) SB urges that the consequence of violating an injunction entered in a Lanham Act action is automatically to trigger Lanham Act recovery as the appropriate measure of damages for contempt. It is further argued that the usual prerequisite elements for Lanham Act liability do not have to be proven in the civil contempt context. SB pre-trial br. at 15, 16-17, 19. "[I]n civil contempt the measure of damages is at least as great as the measure of damages under the statute upon which the injunction rests. Otherwise defendants in contempt may receive the anomalous benefit of a lower damage exposure than defendants who violate the relevant statute without being in contempt." SB pre-trial br. at 15.

2) Sweater Bee's next premise is that it does not have to prove actual damages ("Under a Lanham Act injunction, therefore, the liability for an accounting follows from the contempt

itself" SB pre-trial br. at 19), but is entitled to recover defendant's profits for "the entire period." SB post-trial br. at 49. "There is no other effective means of enforcing the source-reference injunction." SB post-trial br. at 48. And, it asserts, ". . . an accounting is a standard remedy" in the trademark context. SB post-trial br. at 49.

3) Sweater Bee further argues that it need not prove willfulness. Even if it were necessary to find willfulness for liability or damages—which SB does not concede—the fact of the notice of the injunction and the nature of the consent decree, it argues, is sufficient to meet the willfulness standard. SB pre-trial br. at 19-20. Thus willfulness can be imputed, because "the defendants know what conduct is prohibited." Or, "Alternatively," SB argues, "since the contempt-defendants knew that their conduct was illegal under the consent injunction, [their] conduct was willful in any event." SB observes, "The requirement of willfulness under the Lanham Act ensures that the defendants know that their actions are illegal. But a carefully drafted injunction serves this same purpose."<sup>8</sup> SB pre-trial br. at 19-20.

C. Sweater Bee is entitled to attorneys fees.

\* \* \* \*

In sum, Sweater Bee asserts that any violation of the Order is contempt, and that Bayard's violations were willful. It thus is entitled to a full accounting of Bayard's revenues or profits for any period in which there was any violation.

### *Bayard's Argument*

Bayard's position on damages is more readily summarized. Essentially it is that SB has the burden of proving by clear and convincing evidence that it suffered actual damages as a result of Bayard's conduct and SB has failed to meet its burden. *Perfect Fit Industries, Inc. v. Acme Quilting Co.*, 673 F.2d 53 (2 Cir.), cert. denied, 458 U.S. 832 (1982); *Thompson v. Johnson*, 410 F. Supp. 633 (E.D. Pa. 1976), aff'd, 556 F.2d 568 (3 Cir. 1977); *Andre Matenciot v. David & Dash, Inc.*, 422 F. Supp. 1199 (S.D.N.Y. 1976); *Allied Materials Corp. v. Superior Prod-*

*ucts Co.*, 620 F.2d 224 (10th Cir. 1980). The law, Bayard argues, limits damages in contempt to actual damages, and prohibits punitive damages; SB's Lanham Act argument is thus rendered superfluous. However, Bayard goes on, even if SB's logic (totally unsupported, in Bayard's view, by legal authority) has merit, Section 35 of the Lanham Act, 15 U.S.C. 1117, and the relevant cases require proof of actual damages and/or proof of either unjust enrichment or willfulness to justify a disgorgement of profits. SB has produced no evidence to meet these requirements. *Foxtrap, Inc. v. Foxtrap, Inc.*, 671 F.2d 636 (D.C. Cir. 1982); *W. E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656 (2 Cir. 1970); *Cuisinarts, Inc. v. Robot-Coupe Int'l*, 580 F. Supp. 634 (S.D.N.Y. 1984); *Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767 (2 Cir. 1984). Therefore, an accounting in these circumstances cannot possibly be characterized as compensatory and would thus be improper and "purely punitive." Bayard pre-trial br. at 66-67. And while the need for deterrence has been used by courts to justify an accounting, there has been no proof by Sweater Bee of such a need here.<sup>9</sup> *Monsanto Chemical Co. v. Perfect Fit Products Mfg. Co.*, 349 F.2d 389 (2 Cir. 1965); *W. E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656 (2 Cir. 1970); *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, 580 F. Supp. 634 (S.D.N.Y. 1984).

\* \* \* \*

Having examined the various positions taken by the parties and the legal authorities, I conclude that SB has made untenable leaps of logic and law, and in doing so fails even to grapple with, let alone distinguish, certain case law. SB skips blithely over the crucial elements of evidentiary proof it needs as a central stepping stone in its argument, even if the argument were totally persuasive. In short, SB has failed to prove that Bayard's conduct either caused any harm at all to SB or caused any unfair benefit to accrue to Bayard. This crucial link, unfortunately for SB, is also the missing one. Clearly a purpose of civil contempt is to compensate one who has been injured, but it is definitionally unavoidable that there must be proof of injury for which to compensate. Absent this, and absent any legal authority which would allow me to presume harm or unjust

enrichment, I cannot find any basis in law or fact to justify an award of damages—by whatever substitute or alternative measure—in this case.

There is no doubt—and no dispute here—that the law in this Circuit requires that a court compensate an injured party for damages proven in a civil contempt proceeding.<sup>10</sup> *Powell v. Ward*, 643 F.2d 924 (2 Cir.), *cert. denied*, 454 U.S. 832 (1981); *Vuitton et Fils S.A. v. Caroussel Handbags*, 592 F.2d 126 (2 Cir. 1979); *National Research Bureau v. Kucker*, 481 F. Supp 612 (S.D.N.Y. 1979). Moreover had SB proven injury and actual damages as a result of the violative conduct of Bayard, I could perhaps resort to its Lanham argument to award defendant's profits in addition to damages. But even Section 1117, the remedies section of the Lanham Act, does not necessarily "mandate" a disgorgement of profits, it only authorizes a court to consider such belief, and in the language of § 1117 itself, to do so "subject to the principles of equity." See *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, *supra*, 580 F. Supp at 636.

Sweater Bee further argues that where civil contempt has been found, a court should order an accounting to vindicate its authority and preserve its integrity. There is some authority for the proposition that civil contempt may serve one or all of three purposes (to coerce compliance, to compensate plaintiff and to vindicate the authority/integrity of the court). *Galella v. Onassis*, 533 F. Supp.1076 (S.D.N.Y. 1982). However, the bulk of authority cites the first two as the purposes of civil contempt, reserving the third as a prerogative of a court in a criminal contempt proceeding. See, e.g., *United States v. United Mine Workers*, 330 U.S. 258 (1947); *Vuitton et Fils S.A. v. Caroussel Handbags*, 592 F.2d 126 (2 Cir. 1979), *Parker v. United States*, 153 F.2d 66, 71-72 (1 Cir. 1946). Thus the Supreme Court in *United Mine Workers*, 330 U.S. at 303-04, stated:

Judicial sanctions in civil contempt proceedings may, in a proper case, be employed for either or both of two purposes: to coerce the defendant into compliance with the court's order, and to compensate the complainant for losses sustained. [citation omitted] Where compensation is extended, a fine is imposed, payable to the complainant.

Such fine must of course be based upon evidence of complainant's actual loss. . . .

I find no civil case—and SB relies on none—that based an award of damages or profits solely on the need to vindicate the judicial process.

Thus in *National Drying Machinery Co. v. Ackoff*, 245 F.2d 192 (3 Cir. 1957), a trademark infringement case in which the defendants were held in civil contempt after they had willfully violated an injunction restraining them from using the word "National" in their name, the lower court ordered defendants to pay plaintiff a fine of \$5,000 and counsel fees. However, there had been no proof submitted by plaintiff as to how much, if anything, it was entitled to recover. In its opinion, the district court stated that the \$5,000 fine was "intended as compensation." 245 F.2d at 194.

The Third Circuit reversed and stated that a court cannot impose a fine unless it is based in some way on the actual loss caused by the disobedient acts. Judge Hastie stated as follows:

Whether an award in civil contempt be measured in terms of a plaintiff's loss or a defendant's profit, such an award, by very definition, must be an attempt to compensate plaintiff for the amount he is out-of-pocket or for what defendant by his wrong may be said to have diverted from the plaintiff or gained at plaintiff's expense. Unless this limitation is recognized, a requirement that one party turn his profits over to his adversary itself becomes a punitive rather than a compensatory imposition. 245 F.2d at 194.

The Court went on to state that:

There is no suggestion in the present proceeding that this absence of economic injury has been changed by the contemptuous conduct of the defendants. The district court does say that the 'equities' have been changed by this willful misconduct. But there can be no 'equity' in a compensatory award except as it provides a fair equivalent for some loss. If, on the other hand, the reference to changed 'equities' means that the defendant deserved punishment



for a willful wrong, the procedure must be that of criminal contempt rather than the employment of civil contempt as a punitive device. 245 F.2d at 194.

See also, *Parker v. United States*, *supra*, 153 F.2d at 70-71.

The caveats that an award in civil contempt may not be punitive would seem to forestall any temptation on my part to fine defendants because they did not treat the court's injunction with the respect it was due. Absent any judicial decision that punishment may be the sole basis of an award, and absent any need here to coerce defendant into compliance, I must base any award on a compensatory ground.

\* \* \* \*

Sweater Bee devotes much legal argument and presentation of evidence to the proposition that "strict liability triggers an accounting under a Lanham Act injunction."<sup>11</sup> However, in doing so it fatally ignores *Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767 (2 Cir. 1984). *Burndy* is not a contempt case but provides a full analysis of the principles governing an award under the Lanham Act. In *Burndy*, plaintiff alleged violations of Section 43(a) of the Lanham Act by Teledyne, which was one of its competitors in the manufacture of electrical devices. The allegations centered around the marketing of such devices as "UL approved," which is an indication to those in the business that a product meets certain recognized technical standards. Teledyne had modified some of its products but failed to get new UL approval for them. Nevertheless its advertising and labelling indicated "UL approved." The district court found that Teledyne's conduct amounted to a Section 43(a) violation, but that plaintiff had failed to sustain its burden of proving that the violation had caused it appreciable damage or diverted its sales. Judge Dorsey also found that there was no showing of bad faith, no intent to evade the UL standards, no proof of willfulness or obstructive behavior by defendant. And, although *Burndy* had lowered its prices to compete with Teledyne's lower prices, the court found that there was no evidence that the price reductions were related to the violative conduct.

For our purposes, *Burndy* teaches as follows:

1) An award of damages is allowable under 43(a) but only to the extent that they are caused by the violation of the Act. A court may engage in some degree of speculation as to amount of damages, but "causation must first be established." 748 F.2d at 771.

2) In order to compel a defendant to account for its profits, certain standards must be met. These standards grow out of 15 U.S.C. 1117 itself, and "would not be relaxed," 748 F.2d at 772, even if an accounting for profits might also be awarded directly in exercise of the powers of a court of equity.

[T]he decision as to whether a defendant will be ordered to account for its profits under § 1117 rests in the broad discretion of the district court, guided by principles of equity. See *Monsanto Chemical Co., v. Perfect Fit Prods. Mfg. Co.*, 349 F.2d 389, 395 (2d Cir. 1965). Normally an accounting will be ordered only if the 'defendant is unjustly enriched, if the plaintiff sustained damages from the infringement, or if an accounting is necessary to deter a willful infringer from doing so again.' *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970).

748 F.2d at 772. See *Defiance Button Mach. Co. v. C & C Metal Products*, 750 F.2d 1053, 1064 (2 Cir. 1985) (applying the *Burndy* standards).

3) An accounting is "rarely granted." Judge Mansfield writes that the use of an accounting "appears to have been limited to situations in which the defendant's profits represent unjust enrichment derived from diversion of business that clearly would otherwise have gone to the plaintiff, such as in instances where the defendant palmed off its goods as made by the plaintiff . . ." 748 F.2d at 772.

Applying the *Burndy* approach herein, there has been no proof submitted of any injury or harm to Sweater Bee, either in the form of actual damages, such as lost sales, or injury to its good will. There is no factual foundation to support a conclusion that any of Bayard's sales were diverted from SB. Further,



the record does not support an inference that Bayard was unjustly enriched as a result of its Kimberly sales.

As stated earlier in the findings of fact, SB had adduced proof that Bayard sold items under the Kimberly mark without a source reference to retailers who offered them for sale to the general public. But with the exception of the Kimberly Sport dresses (the labels and tags on which lacked the source reference) purchased by SB personnel from Bloomingdale's in the spring of 1983<sup>12</sup>, there is insufficient evidence to support a finding of how much, if any, other mislabelled merchandise was purchased by retailers or by the public.

Further, there is no evidence of any causal link between the trade name and the sales, *i.e.*, that either retailers or the public purchased any garments because they were "Kimberly" garments. On the other hand, there is credible evidence from which to conclude that it is style, not label, that currently is the prime factor causing retailers and women consumers to purchase a given garment. (Testimony of William S. Ruben at 2268, 2278, 2279, 2299-300.)

Yet, Sweater Bee claims it is entitled, at a minimum, to Bayard's profits on all the merchandise covered by the Kimberly invoices which themselves lacked a source reference, even those for the imported garments that were properly labelled and tagged. However, to grant such relief would be totally uncalled for. Invoices were issued by Bayard as the result of a customer's order and in no way contributed to the placing of the order. Since they did not form the basis of the link between the lack of source reference and the sale, the profit (if any) they represented cannot by virtue of the invoice be said to be attributable to defendant's conduct in omitting the "by Bayard." This is especially true in view of other evidence in the record indicating that "buyers" in the trade would not have been deceived into thinking that Bayard's Kimberly was "the real Kimberly," since it had been well publicized in the trade that "the real Kimberly" no longer existed. Moreover, since they knew they were buying from Bayard and not Sweater Bee, they could not have been confused or deceived as to the source of the garment.

Sweater Bee would have me conclude that the 13,000 missing Kimberly Sport labels were all improperly attached to gar-

ments, a finding I cannot rationally make. Bayard's record-keeping and labelling procedures were not so carefully supervised and reliable as to justify such an inference from the label inventory records alone. And even if the labels were wrong, there is still the possibility that the hang tag on the same garment would have had the source reference.

As to the other "media" in which Bayard should have included "by Bayard" and didn't, there is no basis for concluding either that its sloppiness caused Bayard any benefit or that Bayard expected it to. I cannot find any conceivable incentive for Bayard deliberately to omit what it was required by law to include. While the Kimberly mark may have been perceived as valuable prior to 1979 when each of these parties, along with other ladies wear companies, sought to capture it as its own, it is certainly arguable that those who gave up the battle long ago are far ahead of Bayard and SB who continue to wage war over it. It has not been an unqualified success for Bayard<sup>13</sup>, and it cannot from my vantage point be inferred that Bayard violated the order thinking that the huge amount of money it would earn would make these risks worthwhile.

Finally, I must determine whether the record supports a "deterrence" rationale as a basis for an accounting. In *Burndy*, the Court found that no need for deterrence was shown since the defendant's conduct was not blatantly willful, deliberate and fraudulent such as to warrant the "rarely granted" relief of an accounting. 748 F.2d at 772-73. Similarly, Judge Haight in *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, *supra*, a decision predating *Burndy*, determined that an accounting of profits for the purpose of deterrence was totally unwarranted under the facts, stating that such an accounting "is appropriate and desirable [only] where a trademark infringer has wilfully, fraudulently and deliberately violated the law." 580 F. Supp. at 639. *Monsanto*, *supra* and *Bassett*, *supra*, the two leading Second Circuit cases ordering an accounting on a deterrence rationale, involved conduct by defendants which has been judicially labelled as "wrong," "blatant," "fraudulent," "willful," and "deliberate"; indeed, the Court in *Monsanto* described the defendant as a "commercial racketeer," 349 F.2d at 396. Bayard and its conduct herein cannot be classified in the above cat-

egory. Thus, there is no basis to conclude that the deterrence rationale justifies an accounting herein.<sup>14</sup>

\* \* \* \*

Judge Broderick's order appointing me as special master states that each party is to pay one-half the fees, "with the ultimate responsibility for the master's fees to abide the event."

Sweater Bee seeks the costs and attorneys fees incurred in the prosecution of this proceeding. Bayard urges that the cost of these proceedings should be assessed 75% against SB and 25% against Bayard. Bayard's argument herein, pursuant to Rule 37(d), F.R. Civ. P. and/or 28 U.S.C. § 1927, is bottomed on the well-taken premise that SB's counsel's numerous failures to meet discovery deadlines and his conduct throughout the proceedings have multiplied the costs beyond what they reasonably should have been.

Bayard's basis for its allocation of fees is detailed in Point IV, pages 108-26 of its post-hearing memorandum and at pages 30-37 of its post-hearing reply memorandum. In his opposition to Bayard's application, Mr. Grossman, counsel to SB, has submitted a lengthy affidavit with numerous exhibits attached. Therein he offers only some of the myriad of excuses for his conduct that he has raised throughout these lengthy proceedings, all of which had been heard and thoroughly considered on all too many prior occasions.

I do not intend to burden the Court with a recitation covering the conduct of SB's counsel in these proceedings, for to do so would add immeasurably to the length of this report. Suffice it to say that I essentially agree with the accuracy of Bayard's statements in this regard and feel that Mr. Grossman's responses are woefully inadequate.<sup>15</sup> The cases allowing sanctions involved conduct by attorneys far less egregious than that herein. See, e.g., *Chesa Int'l Ltd. v. Fashion Assoc., Inc.*, 425 F. Supp. 234 (S.D.N.Y. 1977), *aff'd*, 573 F.2d 1288 (2 Cir. 1977); *Stanziale v. First Nat'l City Bank*, 74 F.R.D. 557, 560 (S.D.N.Y. 1977).

If the attitude and conduct on the part of SB's counsel could be considered in isolation, I would be inclined to grant Bayard's application for allocation of master's fees. I do think that Bay-

ard incurred more expense in master's and attorneys fees than it rightfully should have as it was not due to Bayard's counsel's conduct that the proceedings were unnecessarily protracted. Bayard should be held responsible for its own conduct, but it should not suffer prejudice because of SB's counsel's conduct. Nevertheless, the overriding fact is that it was Bayard's failures that brought us here in the first place. Therefore, after much consideration, I recommend to Judge Broderick that a fair and just allocation of my fees should be two-thirds against Bayard and one-third against SB (rather than the 100% assessment against Bayard that might otherwise flow from holding Bayard in contempt). I further recommend that attorneys fees not be awarded, in light of my findings of a lack of willfulness on Bayard's part. See *Vuitton et Fils S.A. v. Carousel Handbags*, *supra*, 592 F.2d at 130-1; *Andre Matenciot, Inc. v. David & Dash, Inc.*, *supra*, 422 F. Supp. at 1211-12; *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, *supra*, 580 F.Supp at 640.

Respectfully submitted,

/s/ NEAL J. HURWITZ  
Neal J. Hurwitz

Dated: June 26, 1986

## ENDNOTES

1. Sweater Bee moved for dismissal of the criminal contempt charges on November 28, 1984, and on December 6, 1984, the Court ordered dismissal of these charges.

2. The civil contempt charges against Lawrence Leeds, Jr., President, Chairman of the Board and chief executive officer of Manhattan, were withdrawn by Sweater Bee after the hearing.

3. Bayard argues that SB did not fully comply with the Order either in that SB failed to have the required source reference on some SB sales orders to customers and documents from customers to SB. According to Bayard, SB committed non-complying conduct similar to Bayard's and is therefore guilty of unclean hands. The evidence of non-complying conduct by SB is extremely slight, is of no possible consequence, and I find it to be *de minimis*.

4. What little testimony there is is inconclusive, but it would appear that Bayard's line was aimed at an older consumer.

5. The sole evidence of confusion presented by SB was that of Miss Patricia DePaolo, a buyer who mistakenly visited Bayard's showroom when the New York Telephone Company failed to direct her to SB's showroom (5/20/85 Tr. at 874-8).

6. Sweater Bee argues that *any* violation of the Order, no matter how minor or isolated, would constitute contempt. This argument, however, if applied by me in this case, would be utilized against SB's interest since there was evidence showing some minor failures by SB to use the "By Banff" source reference on sales orders and in its dealings with customers. Such conduct was *de minimis*, and in no sense rises to the level of contempt.

7. Sweater Bee apparently sees dispositive parallels between the conduct of the defendant in *Stevens Linen* and Bayard's conduct. Such parallels escape me. In *Stevens Linen*, defendant marketed fabrics which were found by the district court to have infringed plaintiff's copyright. The district court had entered a preliminary injunction, and, at the end of the trial on the merits, granted a permanent injunction ordering destruction of all infringing fabric but denied compensatory damages, "finding them too speculative." 656 F.2d at 14. The Second Circuit's



review of the lower court decision noted that on the proof and findings below, "the only issue was the extent of the damage." 656 F.2d at 14. Having concluded that there was evidence sufficient to fashion a damage award free of problems of speculation, it laid out an approach to govern a determination of the amount of the award, one aspect of which involved a shifting of the burden of proof with respect to diverted sales. The crux of the court's rationale was that the *product* itself infringed, and plaintiff had established that it was harmed because of defendant's conduct. The Second Circuit's attention centered, therefore, on the question of appropriate damages in this copyright infringement context, and the issue of contempt as such did not come up. Sweater Bee's attention centers on the last paragraph of the Second Circuit opinion in which the Court said that as to sales of the infringing product which defendant could not establish as having been made before the preliminary injunction, the total amount of revenues should be awarded to plaintiff.

Any analogy between this case and *Stevens Linen* breaks down after a comparison between the proof and circumstances of the two cases. In *Stevens Linen* the record showed that the plaintiff had a registered copyright; defendant marketed a substantially similar and infringing product; the parties were clearly direct competitors; there was sufficient overlap of customers to justify an inference that but for defendant's conduct more sales would have been made by plaintiff; and the pattern of plaintiff's sales of the infringed product compared to its overall business increases and decreases were significant. All of these factors supported a finding of harm and provided the basis on which to reasonably calculate damages. Defendant had no right to make even a single sale of the infringing fabric and though it had made no profit to disgorge, it did have revenues to which it was clearly not entitled.

8. This argument fails to take into consideration that "notice" and "knowledge" are two different concepts, both in law and in fact. While an different kind of knowledge than one's having actual knowledge of illegal conduct. Moreover, there is no proof here that anyone at Bayard actually knew of and specifically intended to engage in any of the proscribed conduct.

9. Bayard also makes the argument that it is infringing conduct that is necessary to trigger Lanham remedies, and a use of Kimberly without a source reference would not amount to infringement as both parties have "equal rights granted by the Court." Bayard Post-hearing br. at 73. It makes this argument—that the only infringement would be if Bayard had used "KIMBERLY BY BANFF"—to counter what it sees as SB's "assumption that some manner of 'infringement' has occurred." Because of my finding that SB's argument and proof are both flawed and/or insufficient, and because this dispute as referred to me by Judge Broderick involves the question of contempt, not infringement, I do not find it necessary to come to any conclusion as to the validity of this particular assertion by Bayard. I do note that the infringement claims are at this point subject to subsequent arbitration proceedings, which, if they take place, will presumably address the parties' claims and defenses in this legal area.

10. Bayard urges that damages must be proven by clear and convincing evidence citing *Thompson v. Johnson*, 410 F. Supp. 633 (E.D. Pa. 1976), *aff'd*, 556 F.2d 568 (3 Cir. 1977), but here the evidence offered is insufficient by any standard of proof.

11. Sweater Bee argues that *Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448 (1931), a patent infringement case, frees it of any burden of demonstrating injury resulting from the contemptuous conduct. In *Leman*, defendant who was under order not to sell certain products nevertheless did so, and the Court concluded that the profits from the wrongful sales by defendant properly belonged to plaintiff. It is clear from the Court's language that its decision in *Leman* does not by any stretch of the imagination create a new sort of "strict liability" remedy. To read *Leman*, as SB does, that it requires an award of profits, even in the patent context, is misplaced. *Leman* and its progeny adhere to the notion of compensation as opposed to punishment and the need for a causal link between the defendant's conduct and the plaintiff's injury. Thus, as the Third Circuit stated in *National Drying Mach. Co. v. Ackoff*, *supra*, 245 F.2d at 194:

True, [*Leman*] sanctions the use of profits yielded by contemptuous conduct in the measurement of the injury



caused by a patent infringement. But in our view the Lemman case does not relieve the complainant of showing that the contemptuous conduct did, in fact, have substantial injurious effect upon his economic interest.

12. Indeed it may be that the dresses purchased by Mr. Herling and his secretary constitute the only evidence that the label ever caused a sale; as to these, it is undisputed that the sale took place *because of* the lack of source reference.

13. Indeed, according to Bayard's view its Kimberly venture either lost money, or in one year, was barely profitable.

14. In support of its request for an accounting SB introduced evidence of Bayard's Kimberly sales and an analysis of the profits derived therefrom. Bayard disputed much of SB's approach to the profit analysis and offered its own. In light of the decision herein there is no need to resolve the substantial differences between the parties in this regard.

15. On numerous occasions during the course of these proceedings on applications for preclusion of evidence by Bayard, I had expressed my reluctance to preclude in that I did not wish to unduly prejudice Mr. Grossman's client. My hesitation throughout the proceedings to impose sanctions on SB's counsel was notably unsuccessful—I was under the mistaken belief that the mere threat of a sanction, rather than its imposition should have had the desired effect on counsel.

UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

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Filed: October 20, 1989

Docket No. 88-7810

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At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the twentieth day of October, one thousand nine hundred and eighty-nine.

P r e s e n t :

HON. J. EDWARD LUMBARD  
HON. GEORGE C. PRATT  
HON. ROGER J. MINER

*Circuit Judges.*

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MANHATTAN INDUSTRIES, INC., BAYARD SHIRT  
CORPORATION, and DON SOPHISTICATES, INC.,

*Plaintiffs,*

—against—

SWEATER BEE BY BANFF, LTD.,  
and ROBERT BELSKY,

*Defendants.*

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SWEATER BEE BY BANFF, LTD.,

*Contempt-Plaintiff-Appellant,*

—against—

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION, CHAMPPIERRE, LTD., LAURENCE L. LEEDS, JR., DONALD KALLMAN, ROBERT HAMEL, and FRED FELDSTEIN,  
*Contempt-Defendants,*

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION, DONALD KALLMAN, and ROBERT HAMEL,  
*Contempt-Defendants-Appellees.*

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A petition for a rehearing having been filed herein by appellant, Sweater Bee By Banff, Ltd.

Upon consideration thereof, it is  
Ordered that said petition be and it hereby is DENIED.

/s/ELAINE B. GOLDSMITH  
Elaine B. Goldsmith  
*Clerk*

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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81 Civ. 3975 (VLB)

Filed August 23, 1984

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SWEATER BEE BY BANFF, LTD.,

*Plaintiff,*

—against—

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION,  
DON SOPHISTICATES, INC., and HERBERT ROUNICK,  
*Defendants.*

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WHEREAS, Plaintiff having made on December 16, 1983 motions (1) to amend and supplement the amended complaint to add certain allegations and to add claims for civil contempt and RICO violations against defendants Manhattan Industries, Inc. ("Manhattan"), Bayard Shirt Corporation ("Bayard") and proposed defendants Laurence C. Leeds, Jr., Donald H. Kallman, Robert Hamel, Fred Feldstein and Champ pierre, Ltd., (2) for the scheduling of a trial on criminal contempt as to defendants Manhattan and Bayard, (3) for appointment of plaintiff's counsel as criminal contempt prosecutor and (4) for summary judgment as to liability on civil contempt against defendants Manhattan, Bayard and the proposed defendants; and defendants Manhattan and Bayard and the proposed defendants having cross-moved by Notice of Motion dated June 25, 1984 to compel arbitration of certain issues raised by plaintiff's source-reference claims and for a stay of all such claims pending arbitration; and the Court having considered the extensive memoranda and affidavits submitted by the par-

ties and having heard extensive oral argument on August 10, 1984;

IT IS HEREBY ORDERED that:

1. The defendants Manhattan-Bayard's cross-motion to compel arbitration of and for a stay of plaintiff's source-reference claims in this action as alleged in counts sixteen through twenty, twenty-four, twenty-five and twenty-seven of the Proposed Second Amended and Supplemental Complaint dated December 16, 1983 (to the extent such amendment is permitted by this Order), pending arbitration of the source-reference claims is GRANTED.

2. The plaintiff's motion for partial summary judgment as to liability for civil contempt is DENIED.

3. The plaintiff's motion for leave to amend its complaint to add a claim for civil contempt is DENIED.

4. The plaintiff's motion for a prompt trial of the charges of criminal contempt is placed on SUSPENSE.

5. The plaintiff's motion for appointment of counsel to prosecute the charges of criminal contempt is placed on SUSPENSE.

6. The issues relating to civil contempt are referred promptly to a special master; each side is ORDERED to pay one-half the master's fees, with the ultimate responsibility for the master's fees to abide the event. Neal J. Hurowitz, 598 Madison Avenue, New York, New York 10022 (755-4300) is designated as special master. He is to schedule and hold an evidentiary hearing and to hear and report to me as to whether there has been civil contempt of the final order entered by me in 79 Civ. 5346, a copy of which is annexed to this order, and, if there has been such civil contempt, as to the amount of damage, if any, suffered by plaintiff as the result of such civil contempt. The special master will schedule the sessions of the evidentiary hearing at times and places selected by him, and shall arrange for the transcription of the proceedings. The special master shall determine what, if

any, discovery will be permitted with respect to the hearing, and shall hear and determine all matters with respect to discovery.

7. The plaintiff's motion for leave to amend its complaint to add a claim under the Racketeer influenced and Corrupt Organizations Act is DENIED.

8. The plaintiff's motion to add allegations of source-reference violations on invoices, purchase orders, clothing labels and clothing hang tags as set forth in the proposed amended and supplemental complaint is GRANTED.

9. The matters of civil and criminal contempt are to be considered under the caption of the previous action, *Manhattan Industries, Inc., et al v. Sweater Bee By Banff, Ltd., et ano.*, 79 Civ. 5346 (VLB).

10. The special master shall send to each of plaintiff's counsel, and a counsel designated by defendants, a statement at the end of each month for one-half of his fees and expenses, which will be promptly paid. His fee shall be computed on the basis of \$175.00 per hour.

Dated: New York, New York  
August 22, 1984

SO ORDERED: /s/ VINCENT L. BRODERICK  
Honorable Vincent L. Broderick  
United States District Judge

[Excerpts from December 10, 1984 Conference before  
Special Master in Contempt Proceeding]

[51]

\* \* \*

THE SPECIAL MASTER: I had said to both of you that I had not billed for Brigid's time on my October bill, and I have been ordered as you know by Judge Broderick to submit monthly bills, and I intend to submit a November bill shortly.

Judge Broderick's order just talks about my time at \$175 and mentions nothing about any associate's time. But I am quite certain that any appointment of a master almost impliedly involves the use of associates' time, particularly if a firm is designated as a master.

\* \* \*

[60]

\* \* \*

MR. GROSSMAN: Please don't take Sweater Bee's [Banff's] position personally, because we really do not begrudge your financial success or remuneration.

THE SPECIAL MASTER: I want you to know, and I am not saying it as a self-serving statement but it comes out as a self-serving statement there is no way that I will be prejudiced or whatever have you.

But on the other hand, there are things that occur, as you know, during trials, that affect a judge's determination, and you try to avoid them. Any good self respecting litigator knows that. And I just say that.

\* \* \*

[61]

\* \* \*

THE SPECIAL MASTER: What did you want me to do? You see, I could submit, Mr. Grossman, a bill with Brigid's time on it and as I have told you, it is a condition for going forward. If you don't pay my bill we are not going to go forward, and I am not doing that from a crass point of you, it is not that.

\* \* \*



**[Excerpts from December 19, 1984 Conference before  
Special Master in Contempt Proceeding]**

[5]

\* \* \*

MR. GROSSMAN: The basis for our request [for your recusal], which, as I said, we had hoped to present to you first, was that our concern and your statement on the record at the conference we had December 10, as well as your telephonic statement to me the previous week, to the effect that you would like the parties to consent to pay for Miss Hogeland's time as well as your own time, and that it would behoove the parties to consent to that, because you have, as you stated, a certain amount of authority, and it is typically in the best interest of counsel to acquiesce in requests by people who have judicial or quasi-judicial authority, just to make things go more smoothly.

You said on the record at our December 10 conference, particularly on page 60 of the reported transcript, and I quote: "I want you to know, and I am not saying it as a self-serving statement, but it comes out as a self-serving statement, there is no way that I will be prejudiced or whatever have you, but, on the other hand, there are things that occur, as you know, [6] during trials that affect a judge's determination, and you try to avoid them. Any good, self-respecting litigator knows that, and I just say that."

That is the close of your quotation, and you articulated that admonition in the context of our discussion of your request that Banff consent to pay for Miss Hogeland's time in addition to paying for your own time, and that was the core of our concern as I attempted to articulate it yesterday before Judge Broderick, and as I expressed also here today.

\* \* \*

[24]

\* \* \*

MR. GROSSMAN: . . . It is just totally [25] inappropriate to confront parties or litigators with any questions concerning the financial interest or the financial compensation or the monetary interest of people who have power over the litigators and who

have power over the parties in any judicial or quasi-judicial capacity. The mere posing of the question and the mere request for consent or the request for an expression of preference from a party as to financial compensation to people with judicial or quasi-judicial authority is just totally inappropriate. It gives rise for an appearance, with all due respect, of gross impropriety.

We shouldn't even be confronted with the question. We shouldn't even be confronted with a request to express a preference as to anything which impinges upon your pocketbook, Mr. Hurwitz, upon Miss Hogeland's pocketbook or upon Judge Broderick's pocketbook or anything like that. It flies in the face of every notion of due process. It flies in the face of every notion of judicial impartiality. It flies in the face of every notion of the appearance of avoiding impartiality, and I say that with all sincerity.

This is not an attempt to delay or stall. It is part of a sincere, philosophical belief that I [26] have that these types of questions are totally inappropriate. They have no place in a judicial proceeding. We should not even be confronted with the question or the request, let alone be requested to answer them, and I say that with all sincerity and with all due respect, and with absolutely no intent to delay this proceeding, as we do not wish any undue delay. The motive here is not delay. Rather, the motive here is a very sincerely and deeply felt philosophical belief that I have that this is totally inappropriate, and I respectfully submit that the law and the constitution bear that out.

\* \* \*

[27]

\* \* \*

MR. GROSSMAN: Mr. Hurwitz, with all due respect, we have to renew our application of your recusal. And with all due respect, without intending to impose upon you, I just want the record to show that Sweater Bee [Banff] renews its application to you for your voluntary recusal.

\* \* \*

A62

88-7810

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IN THE  
**United States Court of Appeals**  
FOR THE SECOND CIRCUIT

---

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION,  
and DON SOPHISTICATES, INC.,

*Plaintiffs,*

—against—

SWEATER BEE BY BANFF, LTD. and ROBERT BELSKY,

*Defendants.*

---

SWEATER BEE BY BANFF, LTD.,

*Contempt-Plaintiff/Appellant,*

—against—

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION, CHAMPPIERRE,  
LTD., LAURENCE C. LEEDS, JR., DONALD KALLMAN, ROBERT HAMEL and  
FRED FELDSTEIN,

*Contempt-Defendants,*

MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION,  
DONALD KALLMAN and ROBERT HAMEL,

*Contempt-Defendants/Appellees.*

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ON APPEAL FROM A FINAL JUDGMENT AND ORDER OF THE UNITED STATES  
DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

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**APPELLANT'S PETITION FOR PANEL REHEARING**

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### The Disputed Interrogatories as Examples

Manhattan-Bayard sought and procured sanctions based upon alleged deficiencies and untimeliness in Sweater Bee's interrogatory responses. Superficially, Manhattan-Bayard submitted to Judge Broderick a chart purporting to summarize Sweater Bee's interrogatory "failures" (A.3378-80). In addition, without findings below, this Court was led to conclude that Sweater Bee "responded belatedly and inadequately to Manhattan's interrogatories" (slip op. 5638-39).

Charts such as Manhattan-Bayard's have a superficial appeal (A.3378-80) and encourage quick conclusions without specificity. However, a specific examination of each disputed interrogatory (which the master avoided) refutes the accusations:

*Interrogatory 1.* In interrogatory 1, served on Dec. 7, 1984, Manhattan-Bayard requested an identification of all evidence supporting and negating Sweater Bee's claim (A.2547, 2550). Sweater Bee timely responded on Jan. 7, 1985 that it sought Manhattan-Bayard's Kimberly revenues or profits during the contempt period and needed Manhattan-Bayard's invoice and cost data to calculate them (answer to int. 1 in record).<sup>7</sup>

On Jan. 11, 1985 Manhattan-Bayard wrote to Sweater Bee and complained in 2 respects: first, that Sweater Bee allegedly did not need Manhattan-Bayard's invoice and cost data to answer (A.2753). Manhattan-Bayard is wrong. The measure of recovery is Manhattan-Bayard's contempt profits (slip op. 5646), so that Manhattan-Bayard's invoice and cost data *were* needed.

Second, Manhattan-Bayard also complained that Sweater Bee failed to explain the "basis" for its claim (A.2753). Yet a careful examination of interrogatory 1 shows that Manhattan-Bayard *never* asked for a "basis" (A.2550). Manhattan-Bayard was blaming Sweater Bee for failing to provide the "basis" which Manhattan-Bayard never requested in the first place (A.2753).

On Jan. 22, 1985 Sweater Bee pointed out these deficiencies (A.2759-60). Sweater Bee offered to treat Manhattan-Bayard's Jan. 11, 1985 request for a "basis" as a second set of interroga-

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<sup>7</sup> The Clerk of the Court requested the parties to hold the record because of its enormous size and limited space in the Clerk's office.

ries which Manhattan-Bayard had omitted from its initial Dec. 7, 1984 interrogatory (A.2759).

One week later on Jan. 29, 1985 Manhattan-Bayard moved for an order (A.2786-87), despite its having omitted a request for "basis" in its original interrogatory. Two days later on Jan. 31, 1985 the master issued a telephonic order granting Manhattan-Bayard's motion without allowing Sweater Bee the requisite 4 days to respond to the motion (A.2789).<sup>8</sup>

The following week Sweater Bee's counsel fell ill with a serious influenza infection and relapse, including fever reaching 103.8°F; this influenza infection and relapse lasted 5 weeks until March 1985 (Dr. Goebel decl. at A.2963-66). On March 12, 1985 Sweater Bee re-asserted its claim to the contempt profits and also provided the "basis" for its claim which Manhattan-Bayard had neglected to request originally (A.2918-20).

In short, Sweater Bee's response to interrogatory 1 was timely and correct. Sweater Bee needed Manhattan-Bayard's invoice and cost data. Manhattan-Bayard had failed to request any "basis" in its original interrogatory. When Manhattan-Bayard later requested the "basis", Sweater Bee provided it.

*Interrogatory 2.* Manhattan-Bayard sought an itemization of damages for each medium of contempt, i.e., labels, telephone listing, etc. (A.2550-51). Sweater Bee timely responded on Jan. 7, 1985 by referring to its answer to interrogatory 1 in which Sweater Bee asserted the full contempt revenues or profits (answer to int. 2 in record). This Court's opinion upholds Sweater Bee's claim (slip op. 5646: full contempt profits for all media).

Nevertheless, on Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee (A.2754). On Jan. 22, 1985 Sweater Bee re-affirmed its answer and confirmed that the requested contempt accounting pertained to all media of contempt cumulatively and individually (A.2760). On Jan. 29, 1985 Manhattan-Bayard served a motion seeking a further answer (A.2786-87). Two days later on Jan. 31, 1985 the master granted Manhattan-Bayard's motion without allowing Sweater Bee the required 4 days to respond to the motion (A.2789).

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8 Both Fed.R.Civ.P. 6(d) and S.D.N.Y. Civil Rule 3(c)(1) require 5 days' notice of written motions, allowing the non-moving party 4 days to respond.

After the 5-week influenza illness and relapse of Sweater Bee's counsel in Feb.-March 1985 (A.2963-66), Sweater Bee on March 12, 1985 re-affirmed that each medium of contempt individually and collectively entitled Sweater Bee to recover the contempt revenues or profits (A.2923). On March 19, 1985 M-B moved for an order of preclusion (A.2936) which Sweater Bee opposed on April 1, 1985 (A.2950-51).

On Aug. 7, 1985 the master heard oral argument on Manhattan-Bayard's motion to preclude. The master then ruled in *favor of Sweater Bee*, holding that Sweater Bee's answer was responsive and that "I am not going to prelude. I think it is a legitimate argument that [Sweater Bee] said" (A.3146). Also this Court's opinion supports Sweater Bee's answer claiming the contempt profits for all media collectively (slip op. 5646).

*Interrogatory 3.* Manhattan-Bayard sought the calculation of Sweater Bee's damages and an identification of documents (A.2551). Sweater Bee timely answered on Jan. 7, 1985 by referring to its answer to int. 1 in which Sweater Bee claimed the contempt revenues or profits and the need to examine Manhattan-Bayard's invoice and cost data (answer to int. 3 in record).

On Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee (A.2754). On Jan. 22, 1985 Sweater Bee re-affirmed its answer that the contempt revenues or profits were the damages (A.2761). One week later on Jan. 29, 1985 Manhattan-Bayard served a letter-motion seeking a further answer (A.2786-87). Two days later on Jan. 31, 1985 the master granted Manhattan-Bayard's motion without allowing Sweater Bee the required 4 days to respond to the motion (A.2789).

After the 5-week influenza illness and relapse of Sweater Bee's counsel in Feb.-March 1985 (A.2963-66), Sweater Bee on March 12, 1985 re-affirmed the substance of its initial answer to interrogatory 3 by referring expressly to the answer to interrogatory 1 which asserted the contempt sales and profit totals (A.2923). Manhattan-Bayard sought no further relief under interrogatory 3.

*Interrogatory 4.* In interrogatory 4 Manhattan-Bayard sought various financial data re Sweater Bee (A.2552). Pursuant to Fed.R.Civ.P. 33(c), Sweater Bee referred Manhattan-Bayard to



Sweater Bee's financial statements (answer to int. 4 in record). Sweater Bee objected only to producing its "Hush Puppies" division data which was proprietary and irrelevant to Kimberly. *Id.*

On Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee about the "Hush Puppy" objection (A.2754). On Jan. 22, 1985 Sweater Bee reiterated its objection (A.2761). That same date the master overruled Sweater Bee's objection as to "Hush Puppies". Six days later on Jan. 28, 1985 Sweater Bee furnished its financial statements (A.2778-80).

Although the master overruled Sweater Bee's partial objection concerning its "Hush Puppies" data, no award of fees is appropriate. Sweater Bee's objection was substantially justified. Fed.R.Civ.P. 37(a)(4). The master ultimately sustained Sweater Bee's objection that the "Hush Puppies" material was irrelevant and inadmissible (record at 8/19/85 tr. 2394-2400).

*Interrogatory 5.* Manhattan-Bayard sought the number of Sweater Bee's Kimberly customers on a seasonal basis (A.2552). Sweater Bee did not keep such data but timely referred Manhattan-Bayard to Sweater Bee's Kimberly invoices (answer to int. 5 in record), as authorized by Fed.R.Civ.P. 33(c).

On Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee that Sweater Bee had furnished this data in settlement negotiations (A.2754). On Jan. 22, 1985 Sweater Bee responded that Manhattan-Bayard was mistaken (A.2761-62). Sweater Bee again referred Manhattan-Bayard to Sweater Bee's invoices which contain "the most accurate recitation of the Kimberly information which you seek" (A.2762). Fed.R.Civ.P. 33(c). Manhattan-Bayard offered no further challenge regarding int. 5.

*Interrogatory 6.* Manhattan-Bayard sought the identities of Sweater Bee's Kimberly salespersons and their sales by month and style (A.2552). Sweater Bee timely and properly referred Manhattan-Bayard to Sweater Bee's Kimberly invoices for the identities of its salespersons and properly objected to the remaining request for month/style breakdown as irrelevant and unduly burdensome (answer to int. 6 in record).

On Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee, arguing that Manhattan-Bayard had furnished a list of salespersons to Sweater Bee (A.2754). On Jan. 22, 1985 Sweater Bee



reiterated its objection and rejected the comparison to Manhattan-Bayard's list: Manhattan-Bayard's separate list was necessary because its invoices, unlike Sweater Bee's, do not name the salespersons (A.2762-63).

Although the clerical extraction of the names from the invoices was just as easy for Manhattan-Bayard as for Sweater Bee, Fed.R.Civ.P. 33(c), Sweater Bee mooted the controversy over this clerical undertaking and prepared the list (A.2763). Manhattan-Bayard offered no further challenge regarding int. 6.

*Interrogatory 7.* Manhattan-Bayard sought the identities of "customer representatives for Sweater Bee" and sales data related to them (A.2552). On Jan. 7, 1985 Sweater Bee timely objected that interrogatory 7 was vague (answer to int. 7 in record): Manhattan-Bayard's term "customer representatives for Sweater Bee" could have meant, *inter alia*, a sales rep. to retail stores, or a buying service, or a selling service, etc.

On Jan. 11, 1985 Manhattan-Bayard—without disputing that its original interrogatory 7 had been vague—clarified interrogatory 7 by defining "customer representatives for Sweater Bee" to mean "independent buying services that bought Kimberly apparel from [Sweater Bee]" (A.2754). On Jan. 22, 1985 Sweater Bee agreed to answer the clarified interrogatory 7 (A.2763).

After a 5-week influenza illness and relapse of Sweater Bee's counsel in Feb.-March 1985 (A.2963-66), Sweater Bee on March 12, 1985 answered the clarified int. 7. Sweater Bee did not maintain separate lists of these buying services. Sweater Bee properly referred Manhattan-Bayard to the invoices and sales order forms which contained their names (A.2924). Fed.R.Civ.P.33(c).

On March 19, 1985 M-B moved for an order of preclusion (A.2936-37) which Sweater Bee opposed (A.2952-54). On Aug. 7, 1985 the master was ready to hear oral argument on Manhattan-Bayard's motion to preclude. The master reminded Manhattan-Bayard that it was seeking preclusion as to int. 7 (A.3134: master's reminder re int. 7). Manhattan-Bayard backed off and *never* pursued its preclusion motion as to int. 7.

*Interrogatory 8.* Manhattan-Bayard sought the identities of persons contacted by Sweater Bee's salespersons trying to sell Kimberly apparel (A.2553). Sweater Bee partially objected

on ground of overbreadth and answered that it does not maintain records of *unsuccessful* sales contacts. Sweater Bee properly referred Manhattan-Bayard to the invoices and sales orders for the identities of *successful* sales contacts (answer to int. 8 in record).

On Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee over Sweater Bee's alleged "refusal" to name the *unsuccessful* sales contacts (A.2754). On Jan. 22, 1985 Sweater Bee reaffirmed its original answer: that it does not have records of *unsuccessful* sales contacts (A.2763-64).

On Jan. 29, 1985 Manhattan-Bayard moved for a further answer (A.2786-87). Two days later on Jan. 31, 1985 the master granted Manhattan-Bayard's motion without allowing Sweater Bee the required 4 days for responding to the motion (A.2789). Sweater Bee had nothing further to add. It gave what it had.

On March 19, 1985 Manhattan-Bayard moved for an order of preclusion (A.2937). On June 21, 1985 the master heard oral argument on Manhattan-Bayard's motion to preclude. After oral argument, the master ruled in *favor of Sweater Bee*: he found that Sweater Bee's answer (that it had no such evidence) was responsive (A.3115) and denied the motion to preclude (A.3116).

*Interrogatory 9.* Manhattan-Bayard sought the identities of each officer and person of "managerial responsibility" in Sweater Bee (A.2553). Sweater Bee timely objected.

On Jan. 11, 1985 Manhattan-Bayard narrowed its interrogatory 9 by requesting the identities only of "persons of . . . managerial responsibility who had any responsibility for Sweater Bee's Kimberly apparel" (A.2755). On Jan. 22, 1985 Sweater Bee agreed to answer the narrowed interrogatory 9 (A.2764).

After a 5-week influenza illness and relapse of Sweater Bee's counsel in Feb.-March 1985 (A.2963-66), Sweater Bee on March 12, 1985 answered the narrowed interrogatory 9 (A.2924). In short, Sweater Bee properly objected to the original int. 9. After receiving a narrowed int. 9, Sweater Bee answered timely.

*Interrogatory 10a.* Manhattan-Bayard sought the identification of documents relating to the contempts (A.2553). On Jan. 7, 1985 Sweater Bee timely identified them subject to privilege (answer to int. 10a in record). Pursuant to the master's order, Sweater Bee later identified attorney-client privileged documents.

*Interrogatory 10b.* Manhattan-Bayard sought the identities of persons knowing of the contempts (A.2553). Sweater Bee inadvertently omitted this single sub-part from its Jan. 7, 1985 answers. On Jan. 11, 1985 Manhattan-Bayard notified Sweater Bee of this omission (A.2755). On Jan. 22, 1985 Sweater Bee promptly rectified the omission and provided the information (A.2765).

*Interrogatory 11.* This inquired of investigations made by Sweater Bee (A.2553). On Jan. 7, 1985 Sweater Bee timely objected on grounds of work product privilege (answer and obj. to int. 11 in record). The master sustained Sweater Bee's objection (A.2789).

*Interrogatory 12.* Manhattan-Bayard sought the type of goods which Sweater Bee sold under the Kimberly mark and their prices (A.2553). On Jan. 7, 1985 Sweater Bee timely referred Manhattan-Bayard to Sweater Bee's invoices and sales orders which contain this information (answer to int. 12 in record). This is authorized by Fed.R.Civ.P. 33(c).

On Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee (A.2755). On Jan. 22, 1985 Sweater Bee offered to search for more documents but confirmed that it furnished what it had (A.2766). On March 19, 1985 Manhattan-Bayard moved for preclusion (A.2937). On April 1, 1985 Sweater Bee opposed the motion: Sweater Bee pointed out that its invoices set forth the requested information, as authorized by Fed.R.Civ.P. 33(c) (A.2954-55).

On Aug. 7, 1985 the master was ready to hear oral argument on Manhattan-Bayard's motion to preclude. The master reminded Manhattan-Bayard that it was seeking preclusion as to int. 12 (A.3134: master's reminder re int. 12). Manhattan-Bayard backed off and *never* pursued its preclusion motion as to int. 12.

*Interrogatory 16.* Manhattan-Bayard sought instances of confusion between its and Sweater Bee's Kimberly goods (A.2554-55). On Jan. 7, 1985 Sweater Bee timely objected that proof of confusion was unnecessary in civil contempt and that Sweater Bee was entitled to recover the contempt revenues or profits without proof of post-injunction confusion (obj. to int. 16 in record).

On Jan. 11, 1985 Manhattan-Bayard complained to Sweater Bee (A. 2755). On Jan. 22, 1985 Sweater Bee reiterated its objection that proof of confusion was unnecessary in civil contempt,

citing *Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448, 455-56 (1932), and *Sunbeam Corp. v. Golden Rule Appliance Co.*, 252 F.2d 467, 470 (2d Cir. 1958). See A.2766-69. Sweater Bee produced what it had. The master precluded Sweater Bee from offering evidence of confusion as to goods.

Ultimately, this Court vindicated Sweater Bee's position, holding that Sweater Bee was entitled to recover the contempt profits without proof of confusion (slip op. 5646), relying on *Leman* and *Sunbeam*, *supra*. Sweater Bee's objection not only was substantially justified, Fed.R.Civ.P. 37(a)(4), but was meritorious.

In short, the sanctions are in error substantively for lack of support and procedurally for lack of findings. See Sw.Bee br.95-99 & Sw.Bee rep.br.26-30.

### CONCLUSION

As a matter of law, the return deduction is \$68,069, not the \$177,586 which this Court allowed. There is zero evidence supporting the higher deduction which the contemnor has the burden of proving. Thus the amount of the accounting should be increased by this \$109,517 difference from \$147,199 to \$256,716 as a matter of law. This increased accounting also will better serve the interests of deterrence and compensation, by increasing the accounting beyond an ordinary 7% royalty fee.

Also, the \$30,000 discovery sanctions should be reversed substantively or for want of specific findings below on this extraordinary fine. The precedent consistently requires specific findings below which the master avoided. Specific findings would refute the contemnor's accusations of discovery misconduct. Examples are shown in this petition. Sweater Bee should receive the protection of specific findings below afforded to every other litigant.

Dated: New York, N.Y.  
September 29, 1989

Respectfully submitted,  
GROSSMAN AND KING

by: /s/ Dennis Grossman

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IN THE

**Supreme Court of the United States**

OCTOBER TERM, 1989

BANFF, LTD. f/k/a  
SWEATER BEE BY BANFF, LTD.,

*Petitioner,*

— v. —

SALANT CORP., as successor in interest (by merger)  
to both MANHATTAN INDUSTRIES, INC. and  
BAYARD SHIRT CORP.,

*Respondent.*

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

**RESPONDENT'S BRIEF IN OPPOSITION**

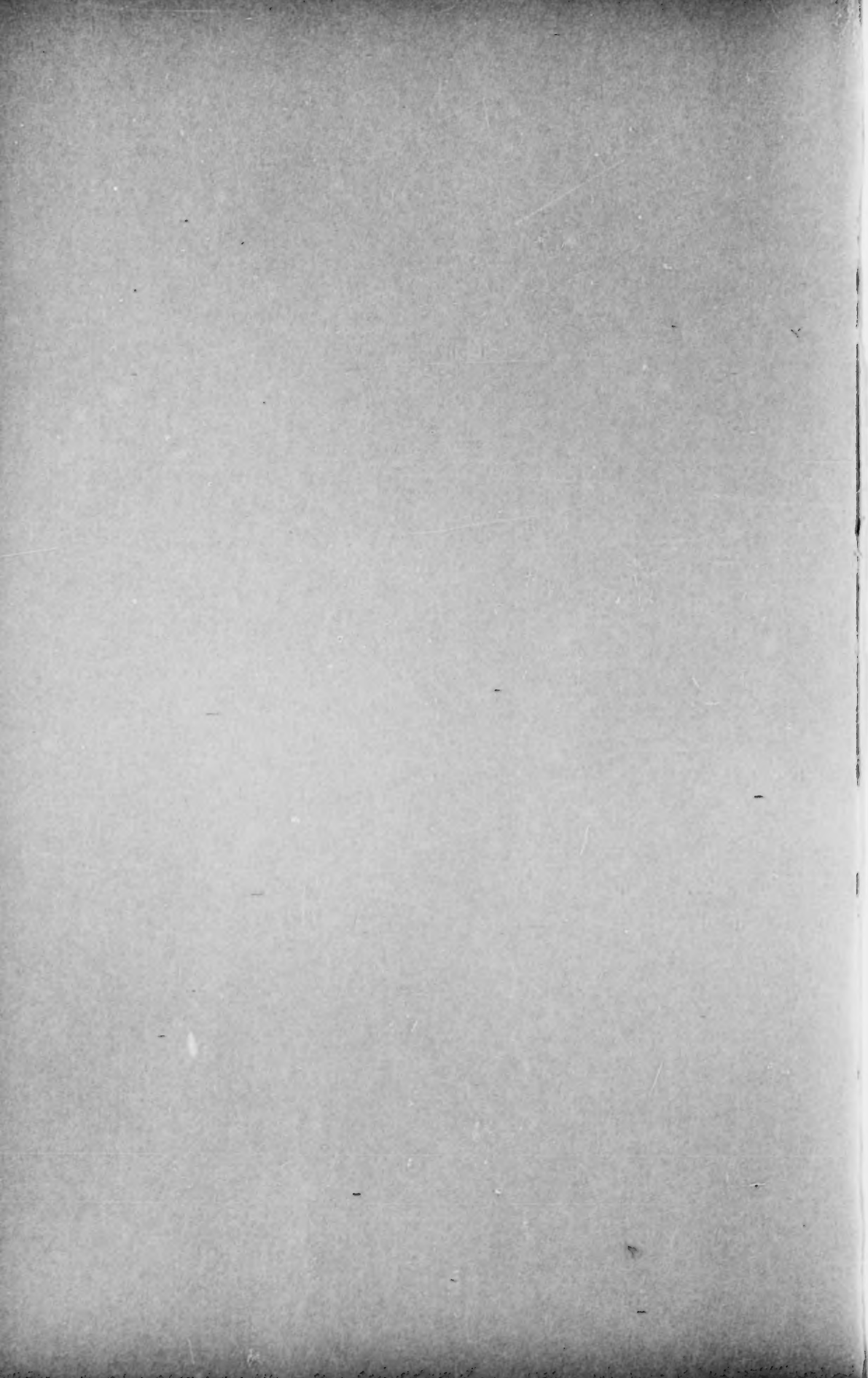
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February 16, 1990

1990





### Question Presented

1. Did the District Court adequately identify the basis for its award of sanctions for discovery abuses where 1) the conduct complained of is fully documented in the record and discussed in detail in memoranda submitted by both parties; 2) the party sanctioned had ample notice of the charges of improper conduct and opportunity to respond; and 3) the Court stated that it "essentially agreed[d]" with the lengthy detailed discussion of the specific conduct complained of in memoranda submitted by the party requesting the sanction and considered the responses submitted by the party sanctioned to be "woefully inadequate"?

**STATEMENT PURSUANT TO RULE 29.1**

The respondent Salant Corporation has no parent companies, is not the subsidiary of any company and has the following non-wholly owned subsidiaries:

Carrizo Manufacturing Co., S.A. de C.V.

Maquiladora Sur, S.A. de C.V.

Perry Ellis Canada

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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1989

---

BANFF, LTD. f/k/a  
SWEATER BEE BY BANFF, LTD.,  
*Petitioner,*

— v. —

SALANT CORP., as successor in interest (by merger)  
to both MANHATTAN INDUSTRIES, INC. and  
BAYARD SHIRT CORP.,  
*Respondent.*

---

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

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**RESPONDENT'S BRIEF IN OPPOSITION**

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**STATEMENT OF THE CASE**

The statement of the case set forth by petitioner is inaccurate in several respects. In an attempt to claim that there was no legitimate basis for the monetary sanction imposed,<sup>1</sup> petitioner

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<sup>1</sup> The sanction took the form of the assessment of one-third of the Special Master's fees and expenses against petitioner. (See Petition for Certiorari ("Petition") at 9, fn. 4.) The parties had shared payment of those fees and expenses during the contempt proceedings. Accordingly, respondent Bayard Shirt Corp., which is liable for two-thirds of the fees, is liable to petitioner for approximately \$14,000 of the fees. Petitioner, however, seeks to avoid any responsibility for payment of the Master's fees and expenses.

fails to mention its counsel's repeated discovery violations and failures to comply with the Special Master's orders throughout the civil contempt proceeding.<sup>2</sup> In addition, petitioner fails to acknowledge that the specific conduct which formed the basis for the award of sanctions is clearly documented in the record, was described in detail in memoranda submitted by the parties, and was specifically identified by reference in the Special Master's Report which was confirmed in all respects by the District Court. Accordingly, petitioner's statement that the Special Master and the District Court never specified "what the alleged discovery violations were" (Petition at 6) is simply incorrect.

Another significant inaccuracy in petitioner's statement of the case is the suggestion that the sanction imposed against it was not based on clearly established discovery violations committed by petitioner and its counsel but was in retaliation for petitioner's motion to recuse the Special Master.<sup>3</sup>

To create this erroneous impression, petitioner juxtaposes its recusal motion, which was based on an off-hand remark made by the Special Master with regard to payment of fees for his associate's time, with the Special Master's recommendation of an award of sanctions occurring eighteen months later, after extensive conferences and hearings in the civil contempt proceeding.<sup>4</sup> However, petitioner fails to acknowledge that when

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<sup>2</sup> The order appointing the Special Master directed him to hear and determine all discovery issues. (A57-58.)

<sup>3</sup> The basis for the recusal motion — that the Special Master asked the parties to pay for his associate's time — was rendered moot because petitioner agreed to pay for the associate's time. Petitioner did not argue to the Court of Appeals, nor does it argue here, that the Special Master should have been recused.

<sup>4</sup> The recusal motion must be seen in the context of petitioner's counsel's consistent and adamant opposition to the Master's discovery rulings and to the very appointment of the Special Master to conduct the civil contempt proceedings. Even before the recusal issue arose, petitioner had repeatedly indicated its unwillingness to abide by the discovery schedule set by the Special

*(Footnote continued)*

it made its recusal motion to the District Court, the Court dismissed it as "frivolous." (See A116-129.) Nor did it pursue the matter on appeal.<sup>5</sup>

### 1. *The Basis for the Special Master's Ruling.*

In its Post-Hearing memoranda submitted to the Special Master, Manhattan/Bayard<sup>6</sup> set forth in twenty-seven pages, the specific discovery violations committed by petitioner's counsel. (A71-115.) The description of the discovery abuses of which Manhattan/Bayard complained was supported by extensive citations to the record.<sup>7</sup> Petitioner's counsel clearly understood specifically what discovery violations he was accused of because he submitted a 14 page affidavit responding in detail to respondent's claims. (A48.)

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Master. (See A124-129.) After failing to get the discovery schedule it wanted, petitioner made a motion to the District Court to set aside the discovery schedule set by the Special Master. (See A116-129.) The recusal motion was made in conjunction with this motion and was clearly raised as a tactic to avoid a discovery schedule petitioner disliked. This conduct followed petitioner's failure to persuade the District Court that no Special Master should be appointed and an unsuccessful interlocutory appeal to reverse the appointment of the Special Master (which was dismissed by the Second Circuit).

<sup>5</sup> Petitioner states that in requesting the sanction, "Bayard adroitly reminded the master" of the recusal motion. (Petition at 9.) In fact, in its 27 pages of memoranda on the subject, Manhattan/Bayard mentioned the recusal motion in two sentences, as part of a chronology of events. (See A80-81.)

<sup>6</sup> "Manhattan/Bayard" refers to Manhattan Industries, Inc., Bayard Shirt Corp., Champ pierre Ltd., Donald Kallman, Robert Hamel, Laurence C. Leeds and Fred Feldstein. Petitioner has adequately identified these parties. None of these parties other than Bayard was found in contempt at any stage of this proceeding.

<sup>7</sup> Among the discovery abuses cited by Manhattan/Bayard were petitioner's repeated refusal to abide by the discovery schedule set forth by the Special Master (A76-80); its failure to begin reviewing documents until ten weeks after the first hearing before the Special Master (A79); its failure to produce copies of the bulk of its documents until 4 1/2 months after the first hearing despite repeated orders by the Special Master requiring earlier production (A81-83); and its extensive delay in providing adequate interrogatory responses. (A84-88.)



The Special Master's Report clearly set forth the basis for the recommendation that 1/3 of the Master's fees be assessed against petitioner as a sanction for its counsel's conduct during the proceeding. The Special Master's Report stated:

"Bayard's basis for its allocation of fees is detailed in Point IV, pages 108-26 of its post-hearing memorandum and at pages 30-37 of its post-hearing reply memorandum. In his opposition to Bayard's application, Mr. Grossman, counsel to SB, has submitted a lengthy affidavit with numerous exhibits attached. Therein he offers only some of the myriad of excuses for his conduct that he has raised throughout these lengthy proceedings, all of which had been heard and thoroughly considered on all too many prior occasions.

I do not intend to burden the Court with a recitation covering the conduct of SB's counsel in these proceedings, for to do so would add immeasurably to the length of this report. Suffice it to say that I essentially agree with the accuracy of Bayard's statements in this regard and feel that Mr. Grossman's responses are woefully inadequate. The cases allowing sanctions involved conduct by attorneys far less egregious than that herein. [citations omitted.] (A48.)

Thus, by incorporating by reference the description of petitioner's counsel's conduct contained in Manhattan/Bayard's memoranda, stating he "essentially agree[d] with the accuracy of Bayard's statements," and specifically rejecting petitioner's responses thereto, the Special Master made clear the detailed basis for his recommendation. (See A48.)

## 2. *The Basis for the Ruling of the District Court and the Court of Appeals.*

After the Special Master issued his Report, Manhattan/Bayard moved in the District Court to confirm the Report and petitioner submitted extensive memoranda in support of its

objections to the Report and opposing Manhattan/Bayard's motion to confirm.<sup>8</sup> The District Court adopted the Special Master's Report including its recommended allocation of the Master's fees as a sanction for petitioner's counsel's conduct.

The Court of Appeals also reviewed the basis for the assessment of costs against petitioner. On appeal, petitioner raised eleven arguments in support of its position that the sanction should be reversed, including the argument made here that the Master's Report did not contain specific findings.<sup>9</sup>

The Court of Appeals had no difficulty determining the conduct for which Sweater Bee had been sanctioned. The Court found that:

"During discovery, the special master on several occasions noted Sweater Bee's failure to comply with the discovery schedule he had established. Not only was Sweater Bee regularly delinquent in producing documents and complying with the special master's discovery orders, but it responded belatedly and inadequately to Manhattan's interrogatories. In fact, the special master cautioned that 'appropriate actions' might be taken if Sweater Bee continued to cause delay, and observed that the number of times Sweater Bee had not met discovery deadlines 'out number[s] the other side in a geometric fashion.' " (A6-7.)

The Court concluded that "the special master was in the best position to judge the nature of both parties' conduct and to apportion his fees and expenses accordingly." (A18.) Petitioner

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<sup>8</sup> In addition to the entire record that was before the Special Master, the District Court also had before it a total of approximately 90 pages of additional memoranda submitted by the parties discussing in detail the conduct which was the basis for the Special Master's recommended sanction.

<sup>9</sup> Petitioner also spent 1 1/2 pages describing its recusal motion based on the Special Master's request that the parties pay for his associate's time.

moved for rehearing and again argued that the sanction should be reversed "for want of specific findings." (A130.)<sup>10</sup> The Court of Appeals denied the petition for rehearing, without comment.

### REASONS WHY THE WRIT SHOULD BE DENIED

This case presents no issues worthy of certiorari. Contrary to petitioner's claim, this case involves no conflict with other Circuits. Rather, the petition is merely a routine attempt by a client and its attorney to avoid a discovery sanction assessed below. Petitioner does not dispute that it had notice of the conduct complained of and ample opportunity to respond. Petitioner also does not contend in this Court that the finding below that discovery violations occurred as described in Manhattan/Bayard's memoranda is clearly erroneous, nor does it contend that those violations were insufficient to warrant the imposition of sanctions.

The only issue raised here is whether the District Court erred because it did not itself list the specific discovery violations on which the award of sanctions was based, but instead, adopted the Special Master's Report which incorporated by reference the detailed description of the numerous discovery violations contained in Manhattan/Bayard's memoranda.

Where the basis for the discovery sanction is clearly articulated, there is no technical requirement that the District Court specifically itemize each violation in its ruling. *See Patton v. Aerojet Ordnance Co.*, 765 F.2d 604, 608 (6th Cir. 1985). The Second Circuit did not err in failing to impose such a requirement.

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\* The argument made in the petition for rehearing is virtually identical to the argument made here. Indeed parts of that argument are repeated here verbatim. (See A130-134.)

I. The Decision of the Court of Appeals Does Not Permit "Conclusory Discovery Fines" and therefore is not in Conflict with Holdings in Other Circuits.

Petitioner mischaracterizes the Second Circuit's opinion as approving "conclusory discovery fines" in conflict with the law in other Circuits. (Petition at 11.) In fact, the Second Circuit did not condone the imposition of discovery fines "without specifying what the alleged violations were." (*Id.*) The Special Master's Report, adopted by the District Court, *did* contain a detailed description of the discovery abuses which formed the basis for the award. That the description was incorporated by reference does not mean, as petitioner suggests, that the Special Master and the District Court did not make any specific findings. Indeed, the Second Circuit had no difficulty ascertaining the specific violations found by the Special Master. The Court noted that the Special Master found that Sweater Bee 1) "fail[ed] to comply with the discovery schedule;" 2) was "regularly delinquent in producing documents;" and 3) "responded belatedly and inadequately to Manhattan's interrogatories." (A6.)

None of the cases from other Circuits cited by petitioner suggest that this level of specification is too "conclusory" to form the basis for discovery sanctions. Significantly, three of the four cases cited by petitioner involve the sanction of dismissal or default judgment for failure to comply with discovery orders. *See Wilson v. Volkswagen of America, Inc.*, 561 F.2d 494 (4th Cir. 1977), *cert. denied*, 434 U.S. 1020 (1978); *Patton, supra*; *Von Der Heydt v. Rogers*, 251 F.2d 17 (D.C. Cir. 1958). Although petitioner argues that the fact that the modest monetary sanction awarded here "falls short of a final dismissal" is irrelevant (Petition at 14), the cases themselves make clear that there are special considerations when the sanction imposed is the "sanction of last resort." *Patton, supra*, 765 F.2d at 607. *See Wilson, supra*, 561 F.2d at 503.

In addition, these cases do not require any greater specificity in setting forth the basis for a monetary discovery fine than existed here. For example, in *Patton*, the Court held that the

sanction of dismissal must be "accompanied by some articulation on the record of the court's resolution of the . . . issues presented." 765 F.2d at 608, quoting *Quality Prefabrication, Inc. v. Daniel J. Keating Co.*, 675 F.2d 77, 81 (3rd Cir. 1982). That articulation was certainly provided here.<sup>11</sup>

In sum, there is no reason for this court to disturb the Second Circuit's decision since it does not constitute "tolerance of conclusory discovery fines" and is therefore not in conflict with holdings in other Circuits.

## II. The Second Circuit Correctly Relied on Cases Holding That the District Court has Broad Discretion to Apportion Special Master's Fees.

The District Court's August 23, 1984 order referring the issues relating to civil contempt to a Special Master specifically states that "the ultimate responsibility for the master's fees [is] to abide the event." (A57.)

The law is clear that the apportionment of a special master's fees rests in the discretion of the District Court and will not be disturbed absent an abuse of discretion. *Apponi v. Sunshine Biscuits, Inc.*, 809 F.2d 1210, 1220 (6th Cir.), *cert. denied*, 484 U.S. 820 (1987) ("[t]he district court has broad discretion to determine which of the parties to charge" with special master's fees); *Morgan v. Kerrigan*, 503 F.2d 401, 427 (1st Cir.), *cert. denied*, 426 U.S. 935 (1976). Thus, the Second Circuit properly concluded, relying on these cases, that "the Special Master was in the best position to judge the nature of both parties' conduct and to apportion his fees and expenses accordingly" and that the district court did not "abuse[] its discretion in approving the apportionment." (A18.)

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<sup>11</sup> In *Carlucci v. Piper Aircraft Corp., Inc.*, 775 F.2d 1440 (11th Cir. 1985), as petitioner points out, the Court held that "in cases invoking the sanction power of Rule 37 the district court must 'clearly state its reasons so that meaningful review may be had on appeal.'" 775 F.2d at 1453, quoting *Wilson, supra*, 561 F.2d at 505. (See also Petition at 11.) While this requirement is undoubtedly correct, it is also undoubtedly true that it was met here. Petitioner was not deprived of meaningful appellate review.

Petitioner argues that the Second Circuit's opinion is in error because it "overlooks the basis of the apportionment: The master's fees were apportioned against Banff *solely* because of Banff's alleged discovery violations without the master's ever having specified what they were." (Petition at 14.) This statement is blatantly wrong on two counts. First, the Second Circuit clearly did not overlook the basis for the apportionment; it clearly understood that the basis for the apportionment was petitioner's counsel's "'conduct throughout the proceeding'" including his "'numerous failures'" "'to meet discovery deadlines.'" (A18.) Second, the Master *did* specify the discovery violations which formed the basis for his recommendation of a sanction. (*See supra* at 4.)<sup>12</sup>

There is thus no basis for this Court to find that the Second Circuit erred in affirming the District Court's discretionary apportionment of special master's fees.

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<sup>12</sup> Sweater Bee's extensive papers in the District Court and the Court of Appeals leave no doubt on this point — its counsel had no difficulty briefing the issues regarding discovery sanctions.

## CONCLUSION

If this Court were to grant the petition and reverse the sanction assessed below, that result would severely undercut the authority of District Courts to award sanctions for discovery abuse. As this Court has observed, the District Courts must have the power to award sanctions both as punishment of those whose conduct warrant sanctions and to deter others from engaging in such conduct. *National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 639, 643 (1976). Where, as here, the District Court's findings are supported by the record, an award of sanctions should not be reversed for abuse of discretion.

This case was correctly decided by the Court of Appeals for the Second Circuit. The decision does not conflict with decisions of the Supreme Court or of other Circuits. Accordingly, respondent respectfully suggests that the Petition for Writ of Certiorari to the United States Court of Appeals for the Second Circuit be denied.

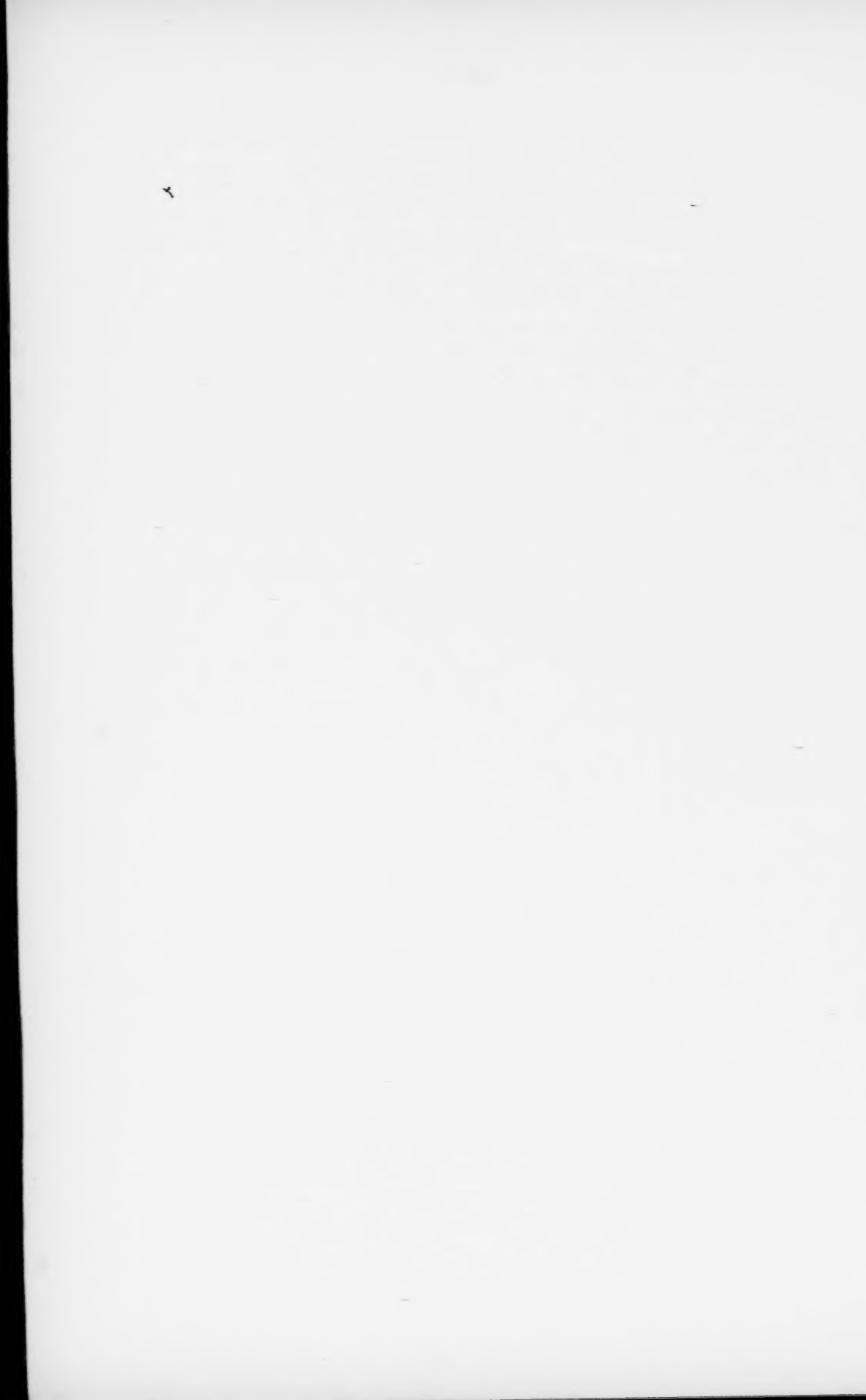
Dated: February 16, 1990

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## APPENDIX



[Excerpt from Manhattan/Bayard's  
Post-Hearing Memorandum]

IV

THE COSTS OF THESE PROCEEDINGS  
SHOULD BE ASSESSED 75% AGAINST  
SWEATER BEE AND 25% AGAINST  
MANHATTAN/BAYARD

Judge Broderick's August 23, 1984 order referring the issues relating to civil contempt to a Special Master specifically states that "the ultimate responsibility for the master's fees [are] to abide the event. Manhattan/Bayard believe that the costs of the civil contempt proceedings should be allocated at a minimum 75% to Sweater Bee and (at most) 25% to Manhattan/Bayard.\* Manhattan/Bayard believe this allocation is appropriate because Sweater Bee's failures to timely provide discovery and

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\*The Special Master may well determine that a greater percentage of such costs, even 100%, should be borne by Sweater Bee.

the conduct of Sweater Bee's counsel have delayed and multiplied the costs of these proceedings from their inception.\*\* See 28 U.S.C. § 1927. We urge the Special Master to recommend to the Court that the costs should be so allocated.

Sweater Bee has sought a civil contempt judgement against Manhattan, Bayard, Champ pierre and the individual parties (albeit by summary judgment) since December 1983. However, since the entry of Judge Broderick's August 23, 1984 order\*\*\* which provided Sweater Bee

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\*\*The length of these proceedings, now over one year in duration, should be compared with Mr. Grossman's statement, made early in this proceeding, that "[c]ertainly there is no justification for the matter dragging out over ten months or a year. . . ." (10/26/84 Tr. at 22.)

\*\*\*The Order stated that the civil contempt issues were "referred promptly" to the Special Master, an admonition that the proceedings should be expedited, as the Special Master has noted on a number

the opportunity to proceed on the civil contempt issues it had raised, Sweater Bee's continuous response has been to attempt to delay or frustrate these proceedings, by appealing the provisions of that Order, making applications to the Court and Special Master to set aside the schedule for discovery and hearings, and failing or refusing to comply with the Special Master's orders, based upon a myriad of excuses. Set forth below is a brief description of certain such Sweater Bee conduct since these proceedings began.

Despite the Court's admonitions on August 10, 1985 that the contempt proceedings "should proceed immediately" (8/10/84 Tr. at 88) and in its August 22 order that the civil contempt proceedings

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of occasions. (See, e.g., 10/4/84 Tr. at 10-11.)

be "referred promptly" to the Special Master, Mr. Grossman, at the very first hearing before the Master, suggested a delay in the proceedings of two to three months to allow the Court of Appeals to decide that portion of Sweater Bee's appeal challenging the order of reference." (10/4/85 Tr. at 12, 23.) Counsel for Manhattan/Bayard opposed this suggestion, believing the parties were obliged to proceed with dispatch, and the Master rejected the suggestion. (10/4/85 Tr. at 25-29.) This delaying tactic having failed, Sweater Bee turned to other methods of delay, including a flat refusal to proceed promptly with discovery.

At the first hearing before the

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\*This suggestion came despite Judge Broderick's refusal to grant Sweater Bee's request for such a stay pending appeal.

Special Master on October 4, 1984, the Special Master ruled, as expected, that the parties would be entitled to discovery as to both liability and damages, and ordered the parties to meet to establish a discovery schedule. (10/4/84 Tr. at 35.) Although counsel for Manhattan/Bayard were willing to meet promptly after the October 4, 1984 conference, Sweater Bee's counsel refused to meet until nearly two weeks later, citing other commitments (primarily Sweater Bee's appeal of Judge Broderick's August 22 order). When counsel for the parties finally met on October 17, 1984, counsel for Sweater Bee stated that he was not prepared to discuss scheduling or the substance of his discovery requests. Counsel for Manhattan/Bayard nonetheless orally described to counsel for Sweater Bee their preliminary views regarding



discovery and hand delivered a preliminary list of discovery requests to Sweater Bee's counsel the next day. Nonetheless, counsel for Sweater Bee failed to even begin preparations for document production until mid-November, 1984. (12/10/84 Tr. at 6-9; 25-26; 29-30.)

On October 26, 1984, the parties met again with the Special Master, who had prepared a discovery schedule which he gave to the parties. That schedule, as modified by the discussion at the hearing, provided, inter alia, for document production to be completed and interrogatories to be answered by mid-December, 1984. Due to Sweater Bee's repeated insistence that it could not meet this schedule and its subsequent requests for extensions of time, on November 29, 1984, the Special Master

issued a second scheduling order calling for completion of discovery by January 25, 1985.

Under the new scheduling order, objections to the parties' document requests, which had been served on November 14, 1984, were to be served by December 3, 1984. Manhattan/Bayard served their objections on that date but Sweater Bee did not. Rather, counsel for Sweater Bee, without obtaining an extension of time, instead wrote a lengthy letter to the Special Master urging him to adopt a discovery schedule ending in April, 1985.\* The Master then called for a hearing on December 10,

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\*Sweater Bee eventually served a marked-up copy of Manhattan/Bayard's document request with handwritten objections on December 7, 1984, the date he had suggested these objections should be due. Counsel never served a typewritten copy of such objections.

1984.

At that hearing, which was necessitated solely by counsel for Sweater Bee's complaints about and refusal to comply with the discovery schedule, counsel for Sweater Bee repeatedly stated its inability to produce documents in accordance with the schedule. Yet, at that hearing, counsel for Sweater Bee revealed that he had not yet reviewed any documents for production and that he had not even communicated with his client regarding document production until after formal document requests had been served on November 14, 1984, even though he had received preliminary document requests on October 18, 1984 and knew as early as October 4 that discovery would be

required.\* (12/10/84 Tr. at 6-8, 25-26.) Counsel for Sweater Bee also stated that he would be unable to even begin reviewing documents until the week of December 17, 1984, ten weeks after the first hearing before the Master. (Id. at 32.)

When the Special Master, apparently recognizing that Sweater Bee's difficulties in meeting the discovery schedule stemmed from its own failure to proceed promptly, declined to extend the discovery schedule in accordance with the wishes of counsel for Sweater Bee, Sweater Bee sought relief from the Court. On December 10, 1984, Sweater Bee made a motion, returnable December 27, 1984,

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\*Mr. Grossman stated that he took no steps toward document production until after he received formal requests because Manhattan/Bayard's earlier informal requests were "tentative". (12/10/84 Tr. at 11-12.)

seeking to have the Court vacate the Special Master's scheduling order.\* Because counsel for Sweater Bee indicated that it believed the discovery process should be stayed pending resolution of its motion,\*\* Manhattan/Bayard requested a prompt hearing before Judge Broderick. The motion was heard on December 18, 1984, at which time Sweater Bee also made an oral motion to disqualify the Special Master. Judge Broderick denied both motions in very strong terms. (12/18/84 Tr. at 3, 9-10.)

On December 19, 1984, the parties

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\*The motion was served on Manhattan/Bayard counsel by mail despite the fact that Mr. Grossman's office is across the street from Mr. Sweeney's office and one block from Mr. Fields' office.

\*\*Sweater Bee even indicated in its notice of motion that it would be glad to agree to an adjournment of its motion, thus further delaying the proceedings before the Special Master.

met again with the Special Master. That hearing was devoted to (1) a discussion of Sweater Bee's objection to paying for the time of the Special Master's associate (see 12/9/84 Tr. at 13-27; (2) Sweater Bee's motion to the Special Master for his recusal (which the Special Master denied) (see 12/19/84 Tr. at 4-13); and (3) a discussion of when Sweater Bee would begin producing documents (see Tr. at 37-64). After a great deal of discussion, the Special Master ordered substantial completion of document production by December 28, 1984 with full production by January 5, 1985. The date for service of objections and answers to interrogatories was adjourned, at Sweater Bee's request, to January 9, 1985.

On January 3, 1985, Sweater Bee's counsel informed counsel for Manhattan/Bayard that Sweater Bee had not begun

copying its documents and would only be ready to allow Manhattan/Bayard to inspect the documents the next day. Manhattan/Bayard believed that the discovery scheduled contemplated actual production of documents by January 5, 1985 and were prepared to supply copies of their documents to Sweater Bee at that time. At a hearing before the Special Master on January 22, Manhattan/Bayard counsel, having failed to receive the documents despite repeated efforts to obtain production, requested that Sweater Bee be ordered to provide copies of the documents, and Mr. Grossman thereupon made a number of commitments as to document production, including a commitment to deliver copies of all Sweater Bee documents by January 29, 1985. Sweater Bee, however, disregarding these commitments and the Special



Master's orders,\* failed to produce copies of its documents until February 18, 1985 -- fully six weeks after they were due. In order to obtain such production, Manhattan/Bayard's counsel was forced to write the Special Master on February 4 and February 14, 1985 and again request that such production be ordered.\*\*

Needless to say, Sweater Bee's failure to produce its documents for six

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\*At the hearing before the Special Master on January 22, 1985, Sweater Bee was ordered to produce its invoices by January 25, 1985. (1/22/85 Tr. at 21-22, 28.) However, no production was made on January 25. Indeed, January 29 also came and went without any production of documents (except financial statements which Sweater Bee's counsel had promised to produce by January 24, 1985.) The invoices were finally produced on February 4 1985.

\*\*Following the February 4 letter, the Special Master wrote to Mr. Grossman, once again ordering him to comply. Full compliance was not forthcoming, however, until two weeks later.

weeks brought the discovery process to a virtual standstill -- and was a substantial factor in delaying these proceedings. Depositions and hearings obviously could not proceed until document production had been made.

Sweater Bee's delinquency in the production of its documents is only one instance in these proceedings in which Sweater Bee has failed to meet deadlines and otherwise shown blatant disregard for the Special Master's rulings. For example, Sweater Bee's performance with regard to answers to Manhattan's interrogatories was also woefully slow and inadequate.

On January 8, 1985, Sweater Bee served an unverified "proof" of its responses to Manhattan/Bayard's

interrogatories.\* On January 11, 1985, counsel for Manhattan/Bayard wrote to counsel for Sweater Bee noting serious deficiencies in Sweater Bee's "proofed" responses and requesting complete substantive information by the following week. No response was received until 1:15 p.m. on January 22, 1985 (the date of a hearing before the Master scheduled for 2:30 p.m.), when Sweater Bee's counsel had delivered a 12-page letter to Manhattan/Bayard counsel, addressing Manhattan/Bayard's "criticisms" of Sweater Bee's interrogatory responses, refusing to answer some interrogatories and committing to provide certain further information as to certain interrogatories

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\*Manhattan/Bayard's interrogatories were served on December 7, 1984. Sweater Bee's answers were originally due on December 21, 1984 which was extended, at Sweater Bee's request, first to December 28, 1984 and then to January 8, 1985.

but furnishing virtually no additional material.

On January 29, 1985, counsel for Manhattan/Bayard wrote to the Special Master seeking orders requiring Sweater Bee to provide full responses to the interrogatories which Sweater Bee had failed to adequately answer and refused to answer fully. On January 31, 1985, the Special Master ruled that Sweater Bee must respond to five of the interrogatories in question. However, Sweater Bee did not respond to these interrogatories or provide any further answers as it had committed on January 22, despite Manhattan/Bayard's repeated requests and the Special Master's orders, until March 12, 1985 -- again fully six

weeks after it was ordered to do so.\* This delay substantially hindered the discovery process, especially the taking of depositions.\*\* The responses that Sweater Bee did provide on March 12, 1985 were unverified and, in several respects, still inadequate. Further, despite repeated requests by Manhattan/Bayard and orders\*\*\* by the Special Master, Sweater

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\*At the hearing on February 21, 1985, the Special Master ordered that the interrogatory responses be provided by February 27, 1985. (2/21/85 Tr. at 109, 150.) They were not.

\*\*The interrogatories at issue went to the heart of this matter. For instance, interrogatory No. 1 requested that Sweater Bee set forth its method of calculating its actual damages -- the only type of damages Manhattan/Bayard contend are properly recoverable in a civil contempt proceeding. (See discussion supra at 44-46.) Thus, without this information, Manhattan/Bayard could not usefully have gone forward with depositions.

\*\*\*See, e.g., letters from Manhattan counsel dated February 4, February 14, April 16 and April 26, 1985; Special

Bee did not serve verified responses to Manhattan/Bayard's interrogatories until May 6, 1985 -- nearly four months after Manhattan/Bayard served its verified responses to Sweater Bee's interrogatories.

The primary excuse given by counsel for Sweater Bee to explain these delays is that he was ill with the flu for the better part of the six-week period from February 7 through March 11, 1985. While Manhattan/Bayard do not believe it useful to question the severity of Sweater Bee's counsel's illness, they do contend that his illness does not excuse these long and repeated delays. First, it is apparent that Sweater Bee's counsel was able to perform

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Master's letter dated February 4, 1985; 2/21/85 Tr. at 150; 3/1/85 Tr. at 33-34, 38-42; 4/5/85 Tr. at 410; 4/17/85 Tr. at 41-45.

certain work during this period. Thus, during the period of his claimed illness, Sweater Bee's counsel wrote several lengthy letters,\* prepared and served five notices of deposition, and attended two settlement conferences before Magistrate Dolinger and a lengthy hearing before the Special Master. Apparently, Sweater Bee's counsel was willing to perform work designed to further his client's case, but was unwilling to provide discovery to Manhattan/Bayard as ordered by the Special Master. Secondly, Sweater Bee counsel's illness cannot excuse Sweater Bee's failure to perform tasks that should have been completed well before his illness purportedly

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\*For example, he wrote a nine-page letter dated February 7, 1985, a seven-page letter dated February 19, 1985 and a four-page letter dated February 27, 1985.



began. For example, his illness cannot excuse Sweater Bee's failure to produce its documents in a timely fashion because Sweater Bee's counsel did not become ill until nearly five weeks after the date the documents were to have been produced; full interrogatory answers were due on January 9, 1985.

Finally, Sweater Bee's failures to comply with the Master's orders continued well after Mr. Grossman's illness had ended. For example, on April 5, 1985, Mr. Grossman was ordered by the Special Master to serve verified answers to interrogatories immediately and by specific dates to produce certain documents and information to Manhattan/Bayard, and to respond to Manhattan/Bayard's motion for an order of preclusion. (4/5/85 Tr. at 397, 410.) Sweater Bee performed none of those tasks

within the required time. (See letter dated 4/16/85 from Thomas J. Sweeney, III to the Special Master.) At a hearing on April 17, 1985, Sweater Bee was again ordered to serve verified answers to interrogatories, this time by April 23, 1985. (4/17/85 Tr. at 45.) Again, Sweater Bee did not comply with the Master's Order.\* The answers were not served until May 6, 1985.

There have been additional, more recent occasions on which Sweater Bee has missed deadlines and otherwise shown disrespect for rulings made in these proceedings. For example, counsel for Sweater Bee ignored the August 29, 1985 deadline, set by the Special Master, for

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\*On April 26, 1985, Mr. Grossman wrote to the Special Master giving various excuses why he had not complied with the Master's Order. That letter gave no date by which Sweater Bee would comply with that Order.

providing counsel for Manhattan/  
Bayard with an expert report in  
anticipation of the expert's deposition  
on September 4, 1985.\* Although Sweater  
Bee's request for an extension of time  
was denied by the Special Master, Sweater  
Bee nonetheless failed to serve the  
expert report on time. Instead, Sweater  
Bee delivered the expert report at 8 p.m.  
on Sunday, September 1, 1985 to the  
summer residence of counsel for  
Manhattan/Bayard's mother-in-law.

In addition, Mr. Grossman's  
conduct has lead to considerable time

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\*There was no excuse for this failure to comply. Mr. Grossman had been aware of the substance of the testimony of Manhattan's accounting expert, Mr. Forcheskie, since early July. Moreover, he had two weeks between his first contact with Mr. Soble and the deadline. The record, which shows no contact whatsoever between Mr. Soble and Mr. Grossman between August 20 and August 28 (Soble Tr. 2903.), suggests not even a good faith effort to comply.

being wasted by both the Special Master and opposing counsel because he has arrived late or simply not attended scheduled hearings. For example, on September 5, 1985, Mr. Grossman failed to appear for the scheduled hearing due to illness but did not inform the Special Master and Counsel that he would not appear until that morning. All concerned were then forced to wait until Mr. Grossman arrived, at noon, some two and one-half hours late. On June 17, Mr. Grossman cancelled a hearing, but failed to so inform the Master who, despite illness, was prepared to proceed.\*

When accused of delaying and

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\*Mr. Grossman was also over forty minutes late for a hearing held on March 13, 1985. (3/13/85 Tr. at 3.) On April 2, 1985, Mr. Grossman and Mr. Herling showed up over an hour late for a scheduled deposition. (See Herling Dep. Tr. 115-116.)

needlessly multiplying the costs of these proceedings, Sweater Bee's response has been to attack Manhattan/Bayard counsel and the Special Master as having also caused their share of delay. (See, e.g., 2/21/85 Tr. at 54-55.)\* However, as the Special Master has previously recognized (see 2/21/85 Tr. at 57) and as the discussion above reveals, Sweater Bee's conduct, through its counsel, has been

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\*Primarily, Sweater Bee has argued that Manhattan/Bayard failed to promptly respond to Sweater Bee's request for a protective order specifying the conditions under which documents could be shown to experts. Sweater Bee proposed its protective order on January 18, 1985. On February 7, 1985, Manhattan/Bayard responded, objecting to certain provisions in Sweater Bee's order. On February 21, 1985, at Sweater Bee's insistence, a protective order was signed by the Special Master. However, there could be no legitimate prejudice to Sweater Bee in the interim period because Sweater Bee did not even produce the bulk of its documents until February 18, 1985 -- only three days before the protective order was signed.

the major cause of delay in these proceedings. Had Sweater Bee complied with the Special Master's orders in the discovery process, these proceedings could have been shortened by at least several months. Further, had Sweater Bee cooperated, the numerous pre-hearing conferences devoted to Sweater Bee's refusal to meet discovery deadlines could have been avoid entirely.

In sum, Sweater Bee and Mr. Grossman's conduct in this proceeding has caused substantial delays, expense and inconvenience to the Special Master, opposing counsel and our clients.\*

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\*Sweater Bee counsel has attempted on numerous other occasions to delay the proceedings even further. Fortunately, these efforts, and a number of other attempts to delay the proceedings even further were rejected by the Special Master. See, e.g. 9/23/85 Tr. at 3062-69 (Grossman request for adjournment because he did not bring his notes for cross-examination of Messrs. Hamel and

During this proceeding, the Special Master has been reluctant to impose sanctions such as orders of preclusion, but has indicated his willingness to impose monetary sanctions. We believe it is now appropriate to impose general sanctions for Sweater Bee's failure to meet discovery in a timely fashion and otherwise comply with the Special Master's orders.

First, we urge the Special Master to recommend to Judge Broderick that the costs of this proceeding\* be assessed 75% against Sweater Bee and 25% against the Manhattan/Bayard parties. In his discretion, the Master may determine that some or all of these costs should be assessed against Sweater Bee's counsel

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Miller denied.)

\*I.e., the Special Master's fees and expenses and the cost of transcripts.



pursuant to Rule 37(d) and/or 28  
U.S.C. § 1927.

Second, we believe that an award of attorneys' fees and expenses to Manhattan/Bayard representing the additional expense generated by counsel's efforts to achieve compliance by Sweater Bee with the Master's discovery and other orders is appropriate. For instance, the Master could award attorneys' fees representing the time counsel spent at hearings devoted solely to Sweater Bee's compliance with discovery, or to preparing correspondence to the Master to address Sweater Bee's failures to provide discovery, or for unduly delaying the proceedings due to lateness or failure to attend.

Rule 37 and 28 U.S.C. § 1927 both allow the assessment of costs and award of attorneys' fees sought by Manhattan/

Bayard. In Chesa International, Ltd. v. Fashion Associates, Inc., 425 F.Supp. 234 (S.D.N.Y. 1977) aff'd 573 F.2d 1288 (2d Cir. 1977), the trial court upheld a Special Master's recommendation of an award of attorneys' fees occasioned by defendant's failure to comply with a discovery order based on Rule 37. The Court also affirmed the Special Master's finding that the attorney should be held jointly liable for the award because "he 'contributed significantly to the pattern of delay and defiance. . . ." 425 F.Supp. at 238. See also Tamari v. Bache & Co., 729 F.2d 469, 472 (7th Cir. 1984) ("where a party has received adequate notice that certain discovery proceedings are to occur by a specific date and that party fails to comply, a court may impose sanctions [pursuant to Rule 37] without a formal motion to compel. . . .")

An award of attorneys' fees under Rule 37 is warranted even if the failure to comply with the discovery order is not willful. In Argo Marine Systems, Inc. v. Camar Corp., \_\_ F.2d \_\_ (2d Cir. 1985), the Court affirmed the trial court's finding that negligent failure to comply with a discovery order was sufficient to warrant monetary sanctions. Accord, Stanzcale v. First National City Bank, 74 F.R.D. 557, 560 (S.D.N.Y. 1977) (Broderick, J.) (award of costs and attorneys' fees granted even though failure to comply with discovery order "could not be characterized as wilful" where conduct was not "'substantially justified.'"); Tamari v. Bache & Co., 729 F.2d 469, 474 (7th Cir. 1984).

Under 28 U.S.C. § 1927, an award of attorneys' fees and costs can be assessed against an attorney "who

intentionally abuse[s] the judicial process so as to cause their opposing counsel unnecessary expense and delay." W.H. Brady Co. v. LEM Products, Inc., 521 F.Supp. 676, 677 (N.D. Ill. 1981). In Lipsig v. National Student Marketing Corp., 663 F.2d 178 (D.D.C. 1980), the Court found that "dilatory tactics during discovery and courtroom hearings" and consistent failure "to meet scheduled filing deadlines" were factors which warranted an award of compensatory attorneys' fees. Further, costs and attorneys' fees may be awarded against any party who abuses the discovery process regardless of whether they are the prevailing party. McEnteggart v. Cataldo, 451 F.2d 1109, 1112 (1st Cir. 1971) cert. denied 408 U.S. 943 (1972).

Regardless of the ultimate outcome of these proceedings, Sweater Bee

should not escape responsibility for the substantial delay and extra expense caused by its dilatory conduct. An assessment of costs and attorneys' fees against Sweater Bee and/or its counsel is warranted and clearly within this Court's discretion pursuant to Rule 37 and/or 28 U.S.C. § 1927.

[Excerpt from Manhattan/Bayard's  
Post-Hearing Reply Memorandum]

III

SWEATER BEE'S CONDUCT CAUSING  
INCREASED COSTS AND SUBSTANTIAL  
DELAY OF THESE PROCEEDINGS WARRANTS  
AND ASSESSMENT OF AT LEAST 75%  
OF THE COSTS AGAINST SWEATER BEE

In opposition to Manhattan-Bayard's request that the costs of this proceeding be apportioned at least 75% against Sweater Bee and at most 25% against Manhattan-Bayard, Sweater Bee initially raises several procedural objections but then largely admits its delays and failures to comply with orders, albeit proffering numerous excuses.

First, Sweater Bee argues that Manhattan/Bayard's request for an apportionment of costs is deficient because Manhattan-Bayard did not submit a supporting affidavit. (Declaration of

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Dennis Grossman dated December 13, 1985 ("Grossman Dec.") ¶ 3.) Manhattan/Bayard is at a loss to understand this objection because, as Sweater Bee well knows, virtually all applications and motions in this proceeding have been made either orally or by letter with no supporting affidavit. Further, the events Manhattan/Bayard complain about are documented in writing and are within the direct knowledge of the Special Master. In any event, counsel for Manhattan/Bayard signed the memorandum and, under Fed.R. Civ. P. 11, his signature signifies that counsel had a good faith belief that the statements made therein were accurate.\*

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\*While Manhattan/Bayard are unaware of any requirement that a post-hearing request for costs must be accompanied by an affidavit, if the Special Master believes an affidavit is required, counsel for Manhattan/Bayard will



Sweater Bee's other procedural objections are that Manhattan/Bayard did not comply with either Local Rule 3(f) requiring an attempt at non-judicial resolution of Rule 37 issues before seeking judicial relief or Local Rule 3(1) requiring a request for an informal conference before making the motion. (Grossman Dec. ¶ 3.) These objections are frivolous. Manhattan/Bayard's counsel made numerous attempts, both orally and by letter, attempting to resolve Sweater Bee's defaults in providing discovery without judicial intervention. (See e.g. Mr. Sweeney's letters to Mr. Grossman dated 12/14/84, 1/11/85 and 1/23/85.) Further, the parties attended numerous conferences before the Special Master in an attempt

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promptly provide one.

to resolve Sweater Bee's failures to meet its discovery obligations.

Manhattan/Bayard contends that Sweater Bee greatly delayed these proceedings by taking several months to produce its documents. (See M/B post-hearing mem. at 112-115.) Sweater Bee admits that it did not even begin searching for documents until November 14, 1984, even though Manhattan/Bayard had served preliminary document requests a month earlier (Grossman Dec. ¶ 5.), but contends that this failure to promptly commence searching for documents was reasonable because it had no obligation to look for documents until formal requests were served. This lame argument has already been rejected by the Special Master. (12/10/84 Tr. at 8.) The fact that Sweater Bee had "thousands of documents" to look through only

emphasizes the need for Sweater Bee to have begun its document search as early as possible. (Grossman Dec. ¶ 6.)

Sweater Bee does not dispute that it took six weeks to produce copies of its documents but attempts to excuse this delay by blaming the copying services it hired (Grossman Dec. ¶¶ 9-12) and its counsel's illness. (Grossman Dec.

¶¶ 12-13, 16.) As previously pointed out, counsel's illness is no excuse because counsel did not fall ill until February 7, 1985 -- five weeks after the documents should have been produced. (See M/B post-hearing mem. at 119.) The difficulties with the copying services also do not justify Sweater Bee's six-week delay in producing documents. Sweater Bee was responsible for properly supervising the copying services and ensuring that they did their work

promptly. Obviously it failed to conscientiously do so.

Sweater Bee also does not deny that it failed to provide full interrogatory responses in a timely fashion. Sweater Bee admits that on January 31, 1985 the Special Master ordered Sweater Bee to respond to certain disputed interrogatories, but that Sweater Bee did not provide any responses until March 12, 1985. Sweater Bee also admits that it did not provide full verified responses to Manhattan/Bayard's interrogatories until May 6, 1985. (Grossman Dec. ¶¶ 19-21.)

Sweater Bee again blames its counsel's illness for its 5 1/2-week delay in submitting its response to the disputed interrogatories. However, on February 21, 1985 (three weeks after Sweater Bee was originally ordered to

respond), the Special Master ordered the responses to be served by February 27, 1985 (2/21/85 Tr. at 150). Sweater Bee's counsel concedes that he was not ill from January 31, 1985-February 7, 1985 and February 18, 1985-February 27, 1985. Thus, Sweater Bee's counsel had 2 1/2 weeks while he was free from illness to prepare the 9 1/2-page response that was ultimately served.\*

Sweater Bee does not even attempt to justify the length of time it took to serve a full verified set of interrogatories but instead claims,

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\*It is worth recalling that Sweater Bee's counsel prepared several letters and notices of deposition during the same period. (See M/B post-hearing mem. at 118.) Sweater Bee's counsel contends that the nine-page letter he wrote dated February 7, 1985 was prepared before that date and thus before he became ill. (Grossman Dec. ¶ 25.) Yet the Declaration of Dr. David Goebel states that Sweater Bee's counsel became ill "on or about February 7, 1985." (at ¶ 4.)

essentially, that it didn't matter because Manhattan/Bayard had the right to use the unverified responses as verified. However, as Sweater Bee admits, its interrogatory responses were contained in various documents served at different times (Grossman Dec. ¶ 21), and were thus unwieldy and difficult for Manhattan-Bayard to use. Manhattan/Bayard had a right to insist on -- and Sweater Bee had an obligation to promptly provide -- one document containing full verified interrogatory responses.

With the exception of Manhattan/Bayard's contention that Sweater Bee failed to serve Mr. Soble's expert report on time, Sweater Bee admits the other delinquencies of Sweater Bee's counsel alleged by Manhattan/Bayard, although again Sweater Bee's counsel offers a variety of excuses. (Grossman Dec.

¶¶ 30-36.) Given the consistency of Sweater Bee's counsel's defaults and failures to meet deadlines, these excuses simply cannot be accepted to justify Sweater Bee's counsel's conduct.

As to Sweater Bee's failure to serve Mr. Soble's expert statement on August 29, 1985, as required, Manhattan/Bayard deny that any permission was granted allowing Sweater Bee to serve the document late as claimed by Sweater Bee. On August 29, 1985, counsel for Sweater Bee called the office of counsel for Manhattan/Bayard requesting that we consent to his proposal to allow him to deliver the expert statement to Mr. Sweeney's vacation home in Rhode Island on Saturday, August 31, 1985. In that phone call, counsel for Sweater Bee indicated that he had applied to the Special Master for an extension of the



August 29 deadline but that his application was denied. On August 30, 1985, our office informed counsel for Sweater Bee by letter that we would not accept this proposal and that Sweater Bee was in default.

As he has done throughout these proceedings, counsel for Sweater Bee attempts to justify his conduct by pointing to alleged failures of Manhattan-Bayard to meet various deadlines. (Grossman Dec. ¶ 26.) As a brief analysis will show, the items that Sweater Bee cites as evidence of Manhattan/Bayard's alleged failures to meet deadlines pale in comparison to Sweater Bee's persistent dilatory conduct.

Sweater Bee complains that Manhattan/Bayard produced a certain number of cost sheets and invoices after

they were originally to be produced. The cost sheets, many of which related to non-Kimberly lines, were produced as soon as they were discovered in the course of Manhattan/Bayard's continuing search for documents. As to the additional invoices, they were produced promptly upon request by Sweater Bee's counsel. Of course, Manhattan-Bayard timely produced approximately 550 cost sheets and over 6000 pages of invoices.

Sweater Bee also argues that Manhattan/Bayard was several days late in producing certain information regarding its experts. However, on July 3, 1985, as ordered, Manhattan/Bayard provided Sweater Bee with the background, subject areas of testimony and documents provided to its experts. On July 8, 1985, Sweater Bee complained that this information was inadequate. On July 9, 1985, the Special

Master ordered Manhattan/Bayard "to elaborate a bit on the topics raised in his [Mr. Sweeney's] July 3 letter. . . ." and to provide some additional documents. Manhattan/Bayard promptly complied with this order.

Lastly, Sweater Bee argues that Manhattan/Bayard missed a deadline in their production of the profit and loss statements of Bayard and Silver Springs Sportswear.\* However, Manhattan/Bayard's

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\*One additional item cited by Sweater Bee is Manhattan/Bayard's offer into evidence of trial exhibit 84. Apparently, Sweater Bee's complaint is that Manhattan/Bayard offered exhibit 84 into evidence in their rebuttal case instead of their main case. Obviously, this item has nothing to do with any alleged failure to provide timely discovery. There is no question that exhibit 84 was timely produced to Sweater Bee. Indeed, the fact that Sweater Bee has to resort to citing this clearly irrelevant item reveals the difficulty Sweater Bee must have had in coming up with legitimate discovery delays to complain about.

counsel were previously unaware of the existence of these documents and produced them as soon as they learned of them.\*

It is clear from the discussion above that none of the items cited by Sweater Bee regarding Manhattan/Bayard's alleged failures to meet deadlines compares with the repeated delays, defaults and outright refusals to obey the Master's orders by Sweater Bee throughout these proceedings. The apportionment of costs suggested by Manhattan/Bayard reflects the substantial delay, inconvenience and extra expense

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\*Moreover, Sweater Bee was given a full opportunity to take discovery on these documents, including a deposition of Mr. Hamel which Sweater Bee later waived.

caused by Sweater Bee's conduct.\*

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\*As a last argument, Sweater Bee states that Manhattan/Bayard made its request for an allocation of costs "to distract from the merits of the proceeding. . . ." (Grossman Dec. ¶ 38.) Manhattan/Bayard are confident that their request for costs will not distract the Special Master from the merits of these proceedings any more than Sweater Bee's conduct throughout the proceedings distracted from his consideration of the merits of the issues to be decided. However, now that all the evidence has been submitted, the time is ripe for an assessment of costs.

[Excerpt From December 18, 1984  
Hearing Before Judge Broderick]

THE COURT: All right, Mr. Grossman. Five minutes.

MR. GROSSMAN: Your Honor, at the outset --

THE COURT: I think you better start off by explaining what you are doing here. You were referred to a special master to hear and determine. What are you doing here?

MR. GROSSMAN: Your Honor, we are here because last Monday we served a motion returnable before your Honor to vacate the discovery scheduling order of the special master whom your Honor appointed, Mr. Neal Hurwitz, and we made that motion returnable before your Honor because we believe that the discovery schedule order was an abuse of discretion, was improper and not

authorized under the Federal Rules of Civil Procedure in light of the nature of the case and the nature of the discovery requests which the parties have served upon each other.

We had a conference before Mr. Hurwitz, on Monday, December 10, 1984. Since that time, we have received the transcript of the conference before Mr. Hurwitz and the transcript bears out my recollection of the proceedings before Mr. Hurwitz in that we believe that certain actions taken by Mr. Hurwitz and certain statements made by Mr. Hurwitz were inappropriate.

THE COURT: I thought he showed extreme reserve. I read the transcript.

MR. GROSSMAN: If I may have a second, your Honor --

THE COURT: You have two



minutes left.

MR. FIELDS: Could I ask Mr. Grossman to speak up a little? It is difficult to hear him.

MR. GROSSMAN: Earlier this afternoon I telephone your Honor's law clerk and I telephoned Mr. Sweeney, suggesting that the hearing before your Honor today be postponed for two days, for the following reason: We have a conference scheduled before Mr. Hurwitz tomorrow and at that conference scheduled before Mr. Hurwitz tomorrow I believe it would be appropriate to address to Mr. Hurwitz, in the first instance, a suggestion that he request leave from your Honor to recuse himself or withdraw as special master in this proceeding.

Unfortunately, we were unable to gain an adjournment of the present motion, and I was advised that it may be

appropriate to address the matter to your Honor in the first instance, although I would have preferred to address it to Mr. Hurwitz.

THE COURT:        You better not address it to me. I am telling you that, You are sorely tempting my patience.

MR. GROSSMAN: Your Honor, with all due respect, if your Honor would wish to go off the record --

THE COURT:        I don't wish to go off the record. I wish to stay on the record.

MR. GROSSMAN: Before Mr. Hurwitz on Monday, December 10, as well as in a telephone conversation which I had with Mr. Hurwitz the previous week, Mr. Hurwitz requested Sweater Bee's consent to not only paying his time at \$175 an hour but also paying for the time of his associate, Ms. Hoagland, at \$45 an hour,

and both during the telephone conversation which Mr. Hurwitz had with me as well as on the record at the hearing or at the conference on Monday, December 10th, Mr. Hurwitz stated that we should agree to his monetary request because he, in essence, has certain amounts of discretion in this proceeding and that it would be appropriate and be the discreet thing for counsel and the parties to go along with his suggestion in light of his position in this proceeding.

I discussed the matter with my client and I did inform Mr. Hurwitz at the conference on December 10th that it was Sweater Bee's position that it would be inappropriate and unauthorized for Sweater Bee and they would respectfully decline to pay the additional amount Mr. Hurwitz requested.

Mr. Hurwitz offered as a rationale, I might add, that Ms. Hoagland's time would be cheaper than his time, but that is just not correct, because, for example, at the conferences which are held before Mr. Hurwitz, both Mr. Hurwitz and his associate, Ms. Hoagland, attend and if we are billed for both of their time at the conference, we are being billed for \$220 per hour for that conference time.

In addition to that, it may be significant that the first bill which Mr. Hurwitz rendered as master to the parties, and I might add that Sweater Bee timely paid that bill, without prejudice to our rights-- the first bill Mr. Hurwitz rendered to the parties, each party's bill was approximately \$1800 for the latter part of September and the month of October, and that bill which Mr.

Hurwitz rendered on November 1st included only - Mr. Hurwitz' time and did not include any request for compensation for his associate's time, and it is our belief that Mr. Hurwitz understood that to be the arrangement pursuant to your Honor's order of reference and that as an afterthought Mr. Hurwitz asked the parties to pay not only for his own time in the amount of \$175 an hour but also for his associate's time in the additional amount of \$45 an hour and in his subsequent bill, rendered just last week, Mr. Hurwitz requested that Ms. Hoagland's time be paid from September through October, through and including November, even though his prior bill billed only for his own time, which we believe was the proper understanding under your Honor's order of reference.

Be that as it may, and getting

back to the question of propriety of Mr. Hurwitz' actions, regardless of whether your Honor contemplates requiring the parties to pay for Ms. Hoagland's time or not requiring the parties to pay for her time-- regardless of that position and regardless of that issue, we respectfully submit that it is very inappropriate for anybody vested with judicial or quasi judicial authority to state or suggest on or off the record, to participants that it would be advisable for them to pay additional amounts of money which that official has requested because the official has a certain amount of authority in the proceeding, and certainly in my practice, I have never been confronted with anything like that. I think it was inappropriate and regardless of Sweater Bee's response at this point we respectfully submit we

cannot get an impartial hearing before Mr. Hurwitz and that there is, at a minimum, a reasonable basis for an appearance of impropriety sufficient to require the disqualification of Mr. Hurwitz because of his request and suggestion in connection with his request for monetary compensation.

THE COURT: I will hear from the plaintiffs.

MR. SWEENEY: Your Honor, this request for disqualification of the master, which we were only told about about two hours ago, we believe this is just another in a long series of actions that Mr. Grossman has taken on behalf of his client to try and prevent the civil contempt from being heard by the master, starting with his motion for reargument directed to your Honor, going to an appeal, an appeal which was dismissed on



jurisdictional grounds.

He has refused to meet with us when he has been ordered to meet with us at particular times. He used commitments as an excuse. He has brought this motion to try and vacate what we think is a very fair schedule and is a schedule that people should be able to make, assuming they use their best efforts to make it. What he has done is instead of trying to meet the schedule and get documents from his client, to answer interrogatories and prepare interrogatories, he has chosen to make various applications to the master and to ignore discovery schedules, and now what he has done is, he has seen an opportunity in the master's request that we pay for Ms. Hoagland's time as well-- he has seen an opportunity to disqualify the special master and the reason he does that is because he doesn't

like the discovery schedule the master has put down and doesn't like this whole proceeding and he told your Honor that in August and told the Court of Appeals that.

This is just an excuse, in our view, to get rid of the special master and to gain some time.

Just to illustrate the delaying tactics here, Mr. Grossman made his motion to vacate the schedule on December 10th. That was December 10th, after we had had on December 10th a hearing with the master, and he didn't make any suggestion to the master or to us that he was going to make such a motion, and he served that motion by mail, so that we didn't get it for a couple of days and made it returnable on the 27th of December, the Thursday after Christmas, and he included a statement to the effect

that he would agree to any reasonable adjournments.

We took the position that your Honor should hear us as soon as possible and we realize your schedule is very difficult, and we called up Mr. Grossman and asked him whether it was his position that a stay of discovery was in effect and he wouldn't respond to that statement-- at least he wouldn't respond to it until we wrote a letter to him, with a copy to the special master, reciting that he wouldn't agree or disagree to the statement that a stay was in effect.

All of his activities here, and I think especially this suggestion of disqualification, are designed to prevent the proceeding from going ahead or to delay the proceeding and it is part and parcel of one group of actions all with

the same end in mind, your Honor.

I don't think there is anything that the special master has said in this transcript, which I think is what Mr. Grossman is referring to, that was improper and Mr. Grossman told me on the phone today that the statements that the special master made to him were pretty much the same as the statements that are in the transcript.

This is a tempest in a teapot. If your Honor should rule, as I think you should, that the special master is entitled to bill for his associate's time, the matter will be resolved and Mr. Grossman's attempt to take advantage of an offhand remark is just outrageous and is intended to get rid of the special master.

MR. GROSSMAN: May I respond to that, your Honor?

THE COURT: Yes.

MR. GROSSMAN: Your Honor, I have never refused to meet with Mr. Sweeney or with Mr. Fields --

THE COURT: I will tell you, Mr. Grossman, you can take it up with the special master. I deny your motion. I would point out to you that this reference to the special master was a reference to hear and determine with respect to discovery questions and I am exercising a great deal of restraint in not assessing attorney's fees against you for making this frivolous motion to me. If there is a repetition of it, I am putting you on notice that I will seriously consider assessing attorney's fees.

[Excerpt from Appellant's  
Petition to the Second Circuit  
for Panel Rehearing]

THE \$30,000 DISCOVERY SANCTIONS

Sweater Bee seeks reversal of the \$30,000 discovery sanctions substantively for lack of support and procedurally for want of specific findings. The precedent consistently requires specificity in imposing large sanctions (Sw. Bee br. 95 ¶ 2). Yet the master merely stated in conclusory fashion that he "essentially agree[d]" with Manhattan-Bayard's presentation and found Sweater Bee's to be "woefully inadequate" (A.44.). This type of conclusory trial court "agreement" with one side's presentation -- without any greater specificity -- has commanded reversal in numerous other cases where the stakes were far less. See, e.g., Sanko Steamship Co. v. Galin, 835 F.2d 51, 53-54 (2d Cir. 1987)

(reversal for specific findings re \$1,000 sanctions).

Here the lack of specificity is doubly prejudicial. It prejudices Sweater Bee who loses \$30,000 and prejudices its counsel who now is exposed to bar disciplinary proceedings over alleged "numerous failures" and "improper conduct" never specified by the master.

The present affirmance also vitiates the concept of specificity. If trial courts may impose \$30,000 sanctions by reciting an "essential agree[ment]" with one side and "woefull inadequa[cy]" in the other -- which is the totality of the master's finding here (A.44). -- then effectively there is no specificity requirement. Trial courts which impose sanctions always "agree" with the party who seeks them. Under the present affirmance, trial courts could receive a



lengthy sanctions request, recite their "essential agree[ment]" with it (as the master did here), recite that the response is "woefully inadequate" (as the master also did here), and then impose enormous fines with conclusory accusations against counsel, exposing parties to financial loss and counsel to discipline, never revealing the specifics of their findings, rationale nor conclusions.

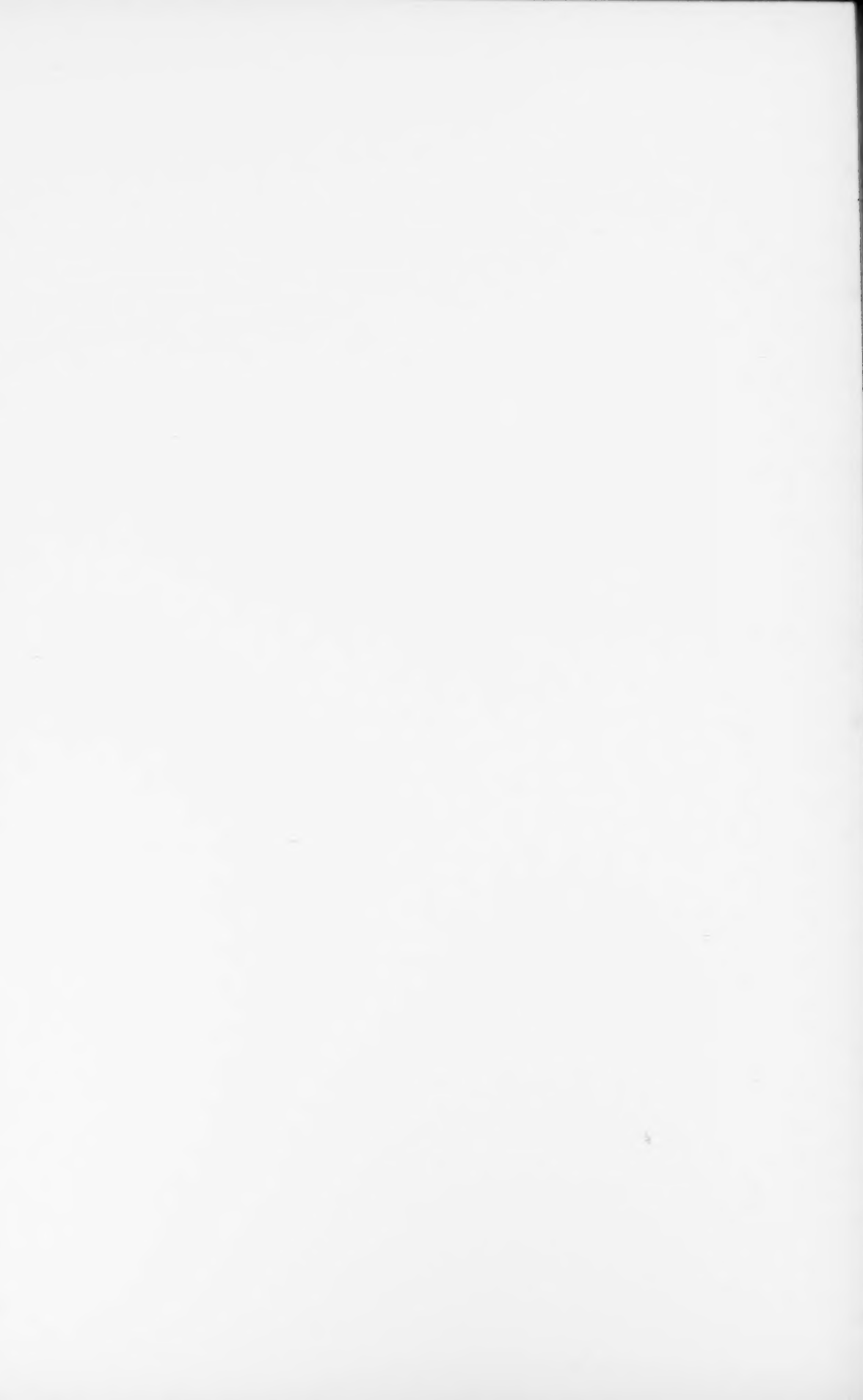
The danger is serious. Even the most conscientious trial judge may be led to err by relying on a movant's version of the alleged "facts" unless the trial court itself undertakes an independent review and explanation of the underlying facts and circumstances. Specific findings are essential to this process. Otherwise, conscientious trial judges -  
- by reciting a mere "agreement" with a

sanctions request and "woefully inadequacy" in the opposition -- inadvertently may conceal erroneous findings, incorrect conclusions or excessive use of discretion, while imposing crippling fines on a party and serious consequences on its counsel.

In every reported case we have found, parties who suffered substantial sanctions have enjoyed the protection of specific findings below. Those findings ensured that the District Court carefully examined and explained each allegation (rather than writing vaguely as the master did here) because of the serious consequences for a party financially and for its counsel professionally. Every other litigant has enjoyed this fundamental protection. Only Sweater Bee in this case has been denied it.

The lack of specificity by the

master prejudices both Sweater Bee and its counsel. Specific findings would have refuted Manhattan-Bayard's request for sanctions. Its request contains numerous errors in its statement of alleged "facts". Specific findings would have forced the master to confront them. Instead, the master was able to avoid these errors by avoiding specific findings and by reciting instead his conclusory statements of "essential agree[ment]" and "woefull inad-equa[cy]". The errors are pervasive. Space does not permit a recapitulation of all Manhattan-Bayard's errors in discussing discovery. [fn omitted].



No. 89-1187

Supreme Court, U.S.

FILED

FEB 26 1990

JOSEPH F. SPANIOL, JR.  
CLERK

IN THE  
Supreme Court of the United States  
OCTOBER TERM, 1989

BANFF, LTD. f/k/a  
SWEATER BEE BY BANFF, LTD.,

*Petitioner,*

—v.—

SALANT CORP., as successor in interest (by merger)  
to both MANHATTAN INDUSTRIES, INC. and  
BAYARD SHIRT CORP.,

*Respondent.*

ON PETITION FOR A WRIT OF CERTIORARI TO  
THE UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION

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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1989

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BANFF, LTD. f/k/a  
SWEATER BEE BY BANFF, LTD.,

*Petitioner,*

—v.—

SALANT CORP., as successor in interest (by merger)  
to both MANHATTAN INDUSTRIES, INC. and  
BAYARD SHIRT CORP.,

*Respondent.*

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**REPLY IN SUPPORT OF PETITION**

The petitioner Banff, Ltd. ("Banff") seeks certiorari to review a \$30,000 discovery fine which the District Court imposed without ever having specified what the alleged discovery violations were. The requirement of specific findings is fundamental and reflects a division among the Circuits.

In this case, the \$30,000 fine was imposed by a special master. The master reported merely in conclusory form that he "essentially agree[d]" with a memorandum filed by the respondent seeking discovery sanctions against the petitioner (A.22,48). The District Court summarily confirmed the master's report (A.21). Neither the master nor the District Court mentioned as much as a single discovery violation.

The large discovery fine below, without specific findings of violation nor specific reasons, ignores the safe-

guards of judicial specificity which are fundamental in practice and required in 4 other Circuits but not in the Second Circuit.

### **1. Summary of Respondent's Errors**

The respondent's errors in opposition are several:

- The respondent erroneously addresses 2 false issues which have nothing to do with the narrow issue raised in the present petition.

- The respondent overlooks the 5 safeguards of specific judicial findings. They are detailed below.

- The respondent erroneously assumes that the cursory judicial recitation of "essential agreement" with a party's argument somehow carries the same safeguards and cognitive assurances as a careful judicial statement of specific findings and reasons.

- The respondent errs in discussing the precedent from 4 other Circuits, all of which require specific judicial findings.

- The respondent erroneously assumes that the Second Circuit's generalized statement of discovery violations below (taken from the respondent's argument) somehow indicates meaningful appellate review.

- The respondent erroneously infers an admission of culpability from the petitioner's decision to raise only a narrow procedural issue here. But the narrow focus here reflects the limits on this Court's certiorari jurisdiction, not an admission of culpability which the petitioner always has disputed.

## 2. The Two False Issues Raised by the Respondent

At the outset, it is important to note what is *not* at issue here. The respondent addresses 2 false issues:

### a. The False Issue of Accusatory Specificity

The respondent raises a false issue by arguing that its accusations allegedly were specific, thereby permitting a specific response. It confuses the alleged specificity of its *accusations* with the requested specificity in judicial *findings*. Pointing to the alleged specificity of its accusations, the respondent argues that “petitioner’s counsel clearly understood specifically what discovery violations he was accused of” (Opp. at 3). This is the wrong focus. The issue is *not* the specificity of the accusations, but the specificity of the *findings*.<sup>1</sup>

### b. The False Issue of “Apportioning” the Master’s Fees

The respondent raises another false issue by arguing that this case involves a mere “apportionment of a special master’s fees” (Opp. at 8). This is a smokescreen. It is undisputed that the *sole* basis for “apportioning” the master’s fees against the petitioner was the *discovery fine* (Opp. at 1n.1). Without the discovery fine, there would be no “apportionment” of master’s fees in the first place. The discovery fine is the sole issue here.

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<sup>1</sup> Many of the respondent’s accusations also were vague and conclusory. For example, the respondent argued that the petitioner “failed to provide full interrogatory responses in a timely fashion” (A.107) *without* specifying which interrogatories it was addressing. Putting aside the respondent’s vague accusation, the petitioner searched the record for all prior interrogatory disputes to show its total compliance (A.63-70).

### **3. The 5 Safeguards of Specific Judicial Findings**

When imposing discovery sanctions, specific judicial findings of violations and reasons are essential. They help to prevent judicial carelessness, deter abuse, expose judicial errors, control the exercise of discretion within prescribed limits, and ensure meaningful appellate review by identifying points of judicial decision and reasoning (Pet. at 11-12). As shown below, the alternative practice adopted by the Second Circuit, in conflict with 4 other Circuits, is not sufficient to protect these interests.

### **4. A Conclusory Judicial Statement of “Essential Agreement” With A Party’s Argument for Sanctions Does Not Provide The Safeguards of Specific Judicial Findings and Reasons**

The respondent defends the Second Circuit’s substitute for judicial specificity: The respondent argues that trial courts may avoid specifying the alleged discovery violations and reasons for sanctions by instead making a conclusory statement of “essential agree[ment]” with a party’s argument (Opp. at 4-7). If this substitute is upheld, District Courts everywhere could avoid specific findings or reasons in discovery sanctions by reciting instead a conclusory “essential agreement” with the party seeking them. This would vitiate the concept of specificity. It also invites several dangers:

#### **a. An Invitation to Judicial Carelessness, Concealment and Haste**

The practice approved below invites judicial carelessness and haste. Permitting District Courts to recite “essential agreement” in lieu of specific findings is likely to invite judicial carelessness and excessive reliance



on a party's submissions. Even conscientious judges may be led to err through the expedient of reciting "essential agreement".

The practice approved below also invites judicial concealment. The vague umbrella of "essential agreement" permits District Judges to conceal the use of impermissible factors in imposing discovery sanctions. This danger is particularly acute in contentious cases such as the present. Here the special master imposed a \$30,000 fine against the petitioner who had disputed his fee increase and sought his recusal (Pet. at 8-9). Without specific findings, it is impossible to tell whether the master concealed the use of impermissible factors in levying the \$30,000 fine.

#### **b. The Impossibility of Meaningful Appellate Review**

Under the conclusory practice which the Second Circuit approved below, it is impossible to have meaningful appellate review. This is so on 3 levels:

First, it is impossible to tell where the District Court agreed or disagreed with the party seeking sanctions. Unless the District Court agreed with *every* detail in a party's submission (here the respondent's submission was 27-pages long), it is impossible to tell which allegations gained the agreement or disagreement of the District Court. The master's cursory statement of "essential agreement" does not define which arguments or presentations he found "essential" (A.48).

Second, it is impossible to tell whether the District Court erred in adopting *sub silentio* an argument which is not supported in the record. The respondent's 27-page submission is replete with numerous arguments not sup-

ported by the record.<sup>2</sup> Yet it is impossible to tell whether or how much the District Court relied on these unsupported arguments which are concealed in the master's general statement of "essential agreement" (A.48).

Third, it also is impossible to tell whether the District Court was influenced by impermissible factors. The respondent sought sanctions for numerous legitimate activities.<sup>3</sup> It is impossible to tell, from the District Court's conclusory statement of "essential agreement", whether or how much the District Court imposed sanctions for these and other permissible actions.

In these 3 respects, it is impossible to have meaningful appellate review of a trial court's conclusory recitation of "essential agreement" with one party's lengthy argument. This is not an adequate substitute for a careful judicial statement of specific findings and reasons.

#### **i. Without Specific Findings In the District Court, The Second Circuit's Generalized Statement of Discovery Violations Does Not Show Meaningful Appellate Review**

The respondent asserts (erroneously) that there was meaningful appellate review because the Second Circuit

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2 For example, *compare* the respondent's generalized argument about allegedly untimely and evasive interrogatory answers (A.107) with the petitioner's detailed showing of timely and responsive interrogatory answers (A.63-70). The respondent erred in numerous other respects, including its tales of document delays and its assertion that the petitioner "does not deny" certain alleged failures (A.107)—a blatant falsehood.

3 For example, and without limitation, the respondent's request for sanctions criticized the petitioner Banff for awaiting a formal document request in discovery (A.78), for seeking a stay pending an appeal to the Second Circuit (A.74), and for seeking the master's recusal after his improper attempt to increase his fee (A.80-81; discussed in detail at pet. at 8-9). These actions by the petitioner were perfectly legitimate.

recited in general terms that there were document and interrogatory violations (Opp. at 5, quoting A.6-7). But the Second Circuit, apart from the generality of its own statement (A.6-7), could not possibly have reviewed any findings of specific violations: There were none in the master's report (A.48-49) nor District Court's opinion (A.21). The Second Circuit obtained the allegations of violations from the respondent's brief below. There were no findings to review—and thus no indication of any *meaningful* appellate review.

#### **5. The Respondent's Errors in Discussing the Precedent from Other Circuits**

At least 4 Circuits require specificity in discovery sanctions and reject the type of conclusory discovery fine which the Second Circuit permitted here (citations at pet. at 11). The respondent's quotations from the other Circuits are not availing. The respondent quotes *Patton v. Aerojet Ordnance Co.*, 765 F.2d 604, 608 (6th Cir. 1985). *Patton* held that the discovery sanction must be "accompanied by some articulation on the record of the court's resolution of the . . . issues presented" (Opp. at 8, quoting 765 F.2d at 608). Yet the only "articulation" here was the master's conclusory statement of "essential agree[ment]" with the respondent (A.48).

Similarly, the respondent quotes *Carlucci v. Piper Aircraft Corp.*, 775 F.2d 1440, 1453 (11th Cir. 1985), and *Wilson v. Volkswagen of America, Inc.*, 561 F.2d 494, 505 (4th Cir. 1977), *cert. denied*, 434 U.S. 1020 (1978). Both *Carlucci* and *Wilson* held that the District Court which imposes sanctions must "clearly state its reasons" (Opp. at 8 n.11, quoting 775 F.2d at 1453 and 561 F.2d at 505). Yet the only "reason" given here was

a summary statement of “essential agreement” with the opposition (A.48). This hardly suffices. Only the Second Circuit permits such a vague conclusory statement to sustain the enormous \$30,000 fine imposed here.

#### **6. The Respondent’s Error in Attributing to the Petitioner an Admission of Violation**

The respondent erroneously attributes to the petitioner Banff an admission of discovery violation because the petitioner does not argue its compliance here (Opp. at 6). The respondent is wrong. The petitioner vigorously has argued its compliance below, but has not done so in this Court because of the limits on this Court’s certiorari jurisdiction. The minutiae of discovery compliance (such as whether an individual interrogatory answer is timely or responsive) are hardly worthy of this Court’s certiorari resources. See examples at A.63-70. Rather, the petitioner has reserved for its petition in this Court the fundamental safeguard of specificity—the requirement that District Courts specify the alleged violations and their reasons when imposing large discovery fines (Petition at i).

If this Court grants certiorari and reverses, the petitioner will continue to assert its compliance on remand. Specific findings below would force the District Court to confront the petitioner Banff’s compliance (see, e.g., A.63-70). The respondent errs when it attributes to the petitioner an alleged admission of violation from the fact that the petitioner has not addressed the minutiae of its discovery compliance in this Court whose jurisdiction is limited to broader issues. Sup.Ct.R. 10.1.

## **7. The Narrow Focus of this Petition Makes It Appropriate for Summary Disposition**

The issue is narrow and fundamental. All materials needed to decide it are before this Court. The petition focuses solely on the need for judicial specificity when imposing large discovery fines. The lack of specificity below is apparent from the face of the opinions and master's report, all of which are in the present appendix (A.1-20, 21, 22-49). The respondent also has offered its memoranda below (A.71-101, 102-115) which it claims suffices for judicial specificity (Opp. at 3-4); but *see contra* at pp. 4-7, *supra*. Since all relevant materials are before this Court on a narrow and important issue which has divided the Circuits, the petition is amenable to resolution on the existing papers. The minutiae of compliance can be addressed on remand under a requirement of specificity.

The petitioner respectfully submits that it is appropriate to resolve the present petition on the existing filings.

## CONCLUSION

When imposing large discovery fines, judicial specification of the party's violations and the Court's reasons is essential. Judicial specificity prevents abuse and carelessness, ensures the exercise of discretion within permissible limits, and is essential to meaningful appellate review. A master's conclusory statement of "essential agreement" with a request for sanctions does not suffice. It invites judicial carelessness, conceals excesses in discretion, and augurs appellate guesswork in reviewing the discovery fine.

Only the Second Circuit permits such a conclusory discovery fine. Four other Circuits reject it. It should be rejected here in order to ensure uniformity among the Circuits in protecting meaningful appellate review of discovery sanctions, proper consideration of relevant factors in discovery disputes, and the fair administration of the discovery rules.

Dated: February 26, 1990

New York, N.Y.

Respectfully submitted,

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